

1/9/78 [2]

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THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

January 1978

Dear Mr. President,

It was very thoughtful of
you to give each of us that
lovely Christmas present. Thank
you.

I'm glad you're home
and am very proud to be
one of your men. It is
a singular privilege to be here.

I hope 1978 is a great
year for us all -

Respectfully,

Jack

Electrostatic Copy Made
for Preservation Purposes

THE PRESIDENT HAS SEEN.



THE VICE PRESIDENT
WASHINGTON

January 9, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: The Vice President *W*
SUBJECT: Freedom House Report on Human Rights

I am attaching at Tab A the December 25 New York Times article reporting on the Freedom House survey. It is encouraging to note in this worldwide survey that:

- there were important gains for human rights in 1977;
- the number of free and democratic nations is on the rise, and
- U.S. policy, under your Administration, has played a major role in bringing about these improvements.

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for Preservation Purposes**



Freedom House Reports Gains for Liberty This Year

By FARNSWORTH FOWLE

Solid gains for political and civil liberty were scored in 1977, according to the annual worldwide survey by Freedom House classifying countries and territories as free, partly free or not free.

India and Spain were added to the minority rated free—a total that stands at 44 countries and 25 territories, with 35.7 percent of the world's population. India joined Israel and Turkey as the only sovereign countries on the Asian mainland in this category.

Moving from not free to partly free were Ghana, Kuwait, Madagascar, Nepal

and Syria. The territories occupied by Israel, not listed in 1976, were also placed in this category, as was the British crown colony of Hong Kong, which was rated free last year.

In the Western Hemisphere Chile continued in the column of not-free countries, with Argentina, Paraguay and Uruguay in South America, Panama in Central America—the Canal Zone was classified as partly free—and Cuba and Haiti in the Caribbean. Colombia, Costa Rica and Surinam maintained their rating of free, as did a majority of the independent Caribbean islands and the United States

territory of Puerto Rico.

In Africa the former French Territory of Afars and Issas, now independent Djibouti, joined Botswana and Gambia on the short list of free countries.

With Spain as well as Portugal now rated free, Europe forms a bloc of such countries as far east as the borders of East Germany, Hungary, Yugoslavia and Albania, all classified with Poland and the Soviet Union as not free.

Greece and Malta, like Turkey, were on the list of the free, but the other Mediterranean island republic, Cyprus, remained partly free.

The study showed gains in liberty, not always enough to rate a change in category, in 26 countries, with diminished freedom in nine, including Angola, the Congo Republic, Equatorial Guinea, Ethiopia and South Africa.

John Richardson Jr., who became president of Freedom House this year after serving as Assistant Secretary of State for Education and Cultural Affairs in the Nixon and Ford administrations, noted that the significant overall gain "coincided with President Carter's human-rights initiatives abroad." Although only some of this was directly a result of United States policies, he said, "the greater attention paid human rights by American leaders provided an unusually favorable environment for freedom."

With the assistance of a board of scholars, the Comparative Study of Freedom has been directed since 1972 by Dr. Raymond D. Gastil, a social scientist and anthropologist who has been a specialist on Iran and is now a full-time member of the Freedom House staff.

U.S. Policy Called Big Factor

He noted that "the change of attitude of the United States Government has again and again been cited as one among a number of contributing factors," with Iran, Thailand and Taiwan particular examples.

Dr. Gastil mentioned Ghana, Nigeria, Senegal, Bolivia, Peru and Ecuador as countries that have been laying foundations for progress in freedom, often in preparing for elections under new consti-

tutions. He also saw new hope in Eastern Europe and the Soviet Union raised by the Carter Administration's emphasis on the Helsinki agreements on human rights.

His survey includes an expanded "Table of Political-Economic Systems" to give additional information about the countries rated, and indicate more about the methods used. On a horizontal political scale, systems are rated as multiple-party, dominant-party, one-party or non-party; on a vertical economic scale, the classifications are capitalist, capitalist-statist, capitalist-socialist and socialist, with a further division of each class into pre-industrial and industrial states.

**TODAY IS CHRISTMAS!
REMEMBER THE NEEDIEST!**

THE WHITE HOUSE
WASHINGTON

January 9, 1978

Bert Wise

The attached was returned in the President's outbox and is forwarded to you for your information. The signed original has been given to Stripping for mailing.

Rick Hutcheson

cc: Stripping

RE: LETTER TO AMBASSADOR MURPHY

780043

THE WHITE HOUSE
WASHINGTON
INTELLIGENCE OVERSIGHT BOARD

December 28, 1977

Dear Mr. President:

Ambassador Robert D. Murphy, who served as the first Chairman of the Intelligence Oversight Board from February 1976 to May 1977 when you appointed me to succeed him, has recently been invalidated by a severe stroke. He is undergoing therapy at the Howard Rusk Institute for Physical Rehabilitation in New York City, and I understand that the prognosis is quite guarded.

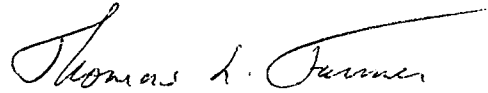
Ambassador Murphy is, I believe, one of the nation's most distinguished diplomats and public servants. He served as President Roosevelt's personal representative, with the rank of Ambassador, throughout much of World War II and during the international peace conferences which followed its conclusion. One of his major personal achievements during the war was the commitment he obtained from the French Vichy Government not to combat Allied troops then massing in North Africa preparatory to the advance into Europe. This action saved many thousands of lives. He was subsequently Ambassador to Belgium and Japan and retired in 1959, after serving as Under Secretary of State for Political Affairs.

After retirement, Ambassador Murphy served on the President's Foreign Intelligence Advisory Board under Presidents Kennedy, Johnson, Nixon and Ford. He resigned from the PFIAB to chair, from 1973 to 1975, the Commission on the Organization of the Government for the Conduct of Foreign Policy. President Ford reappointed Ambassador Murphy to the PFIAB in February 1976, and also designated him Chairman of the IOB.

-2-

I know that Bob Murphy would be gratified and moved to receive a note from you.

Sincerely yours,

A handwritten signature in cursive script, reading "Thomas L. Farmer". The signature is written in dark ink and is positioned above the printed name.

Thomas L. Farmer
Chairman

The President
The White House
Washington, D. C.

THE WHITE HOUSE
WASHINGTON

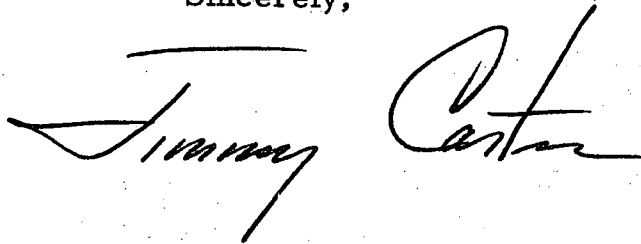
December 29, 1977

To Ambassador Robert Murphy

I was very sorry to learn of your recent illness. Rosalynn and I hope and pray that recovery will proceed swiftly and that you will soon return to the vigorous life you had been leading.

With best wishes for the new year.

Sincerely,

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink and is positioned below the word "Sincerely,".

The Honorable Robert D. Murphy
Institute of Rehabilitation Medicine
Room 410
400 East 34th Street
New York, New York 10016

THE PRESIDENT HAS SEEN

THE WHITE HOUSE
WASHINGTON

9

JANUARY 9, 1978
3:20 P.M.

MR. PRESIDENT:

I'M LEAVING FOR JAPAN TO BUTTON
UP THE DATSUN AUTO DEAL. BOB
KEEFE IS ALSO GOING ALONG.

I THOUGHT YOU WOULD BE INTERESTED
TO KNOW THAT WHEN OUR PLANE
STOPS IN ANCHORAGE, IT WILL BE THE
50TH STATE THAT KEEFE HAS BEEN IN--
AND I HAVE PAID FOR MOST OF THEM
AS CHAIRMAN OF THE DEMOCRATIC PARTY.

BOB STRAUSS

**Electrostatic Copy Made
for Preservation Purposes**

780044

THE WHITE HOUSE
WASHINGTON

January 9, 1978

The Vice President
Hamilton Jordan
Joe Aragon

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

RE: PRESIDENTIAL PHONE CALLS -
PANAMA TOWN HALL MEETINGS

THE WHITE HOUSE
WASHINGTON

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

ACTION	FYI	
<input type="checkbox"/>	<input checked="" type="checkbox"/>	MONDALE
<input type="checkbox"/>	<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	<input checked="" type="checkbox"/>	JORDAN
<input type="checkbox"/>	<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	<input type="checkbox"/>	MOORE
<input type="checkbox"/>	<input type="checkbox"/>	POWELL
<input type="checkbox"/>	<input type="checkbox"/>	WATSON
<input type="checkbox"/>	<input type="checkbox"/>	McINTYRE
<input type="checkbox"/>	<input type="checkbox"/>	SCHULTZE

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day	

<input checked="" type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	GAMMILL

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	MOE
<input type="checkbox"/>	PETERSON
<input type="checkbox"/>	PETTIGREW
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VOORDE
<input type="checkbox"/>	WARREN

THE WHITE HOUSE
WASHINGTON

1/9/78

Mr. President:

Attached is a memo describing your involvement via telephone with six Town Hall meetings on the canal treaties. Ham, Jody and Tim all approved of the strategy and Tim gave his approval to schedule them before he left.

The calls are scheduled for this Saturday and the following Monday and Tuesday.

Phil

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

January 9, 1978

*Let The
V.P. do it
J*

MEMORANDUM FOR TIM KRAFT

FROM: JOE ARAGON *JA*

SUBJECT: PRESIDENTIAL PHONE CALLS -
PANAMA TOWN HALL MEETINGS

Beginning on Saturday, January 14th the World Affairs Council and the Foreign Policy Association, in conjunction with several university and community groups will sponsor a series of "town Hall" meetings on the Panama Canal treaties. The Citizens Committee is also involved in these meetings.

We have been working with these groups in six states in an effort to bring about successful events. Each town hall meeting for example, will have a person who will present the Administration's position on the treaties. General Dolvin, Ambassador Gale McGee, Assistant Secretary of the Air Force Tony Chayes and others will be on hand at the meetings to do this. The format for each meeting will vary a little according to local planning. Some will be face to face debates while others will be question/answer with a panel of reporters asking questions of each presenter.

Although these are local community events involving a few hundred people, in each case efforts have been made to attract media participation. TV, radio and print press have been contacted.

The call by the President will be the highpoint of the meeting and his participation will help greatly to generate additional media interest in the meetings. It will also be an excellent way for the President to have some direct contact with average citizens in key states where we need to build additional public support for the treaties.

Since these meetings will be broadcast either in whole or in part by participating radio and tv stations, the number of people who will be exposed to an informed presentation of the issue is expected to be considerable in each state.

I will follow up this memo to you in a couple of days with a detailed memorandum covering expected attendance and media coverage.

**Electrostatic Copy Made
for Preservation Purposes**

Here is the schedule for the phone calls to be made by the President to the Panama Town Hall meetings:

Call #1	Springfield, Mass.	Jan. 14	1:30 pm EST
Call #2	Hattiesburg, Miss.	Jan. 16	7:15 pm EST (6:15 CST)
Call #3	Little Rock, Ark.	Jan. 16	7:30 pm EST (6:30 CST)
Call #4	Tucson, Ariz.	Jan. 17	9:15 pm EST (7:15 MT)
Call #5	Riverside, Calif.	Jan. 17	9:30 pm EST (6:30 PST)
Call #6	Albuquerque, NM	Jan. 17	9:45 pm EST (7:45 MT)

Call Procedure

1. White House Communications technicians have been in touch with the local groups and will handle the mechanics of the phone call.
2. Each call will be a live two-way call and will last 5 - 10 minutes.
3. At the scheduled time the call will be placed from the Town Hall meeting to the White House. The Chairman or moderator of the meeting will then greet the President and read to him the question selected from those submitted by the participants. The name of the question's author will also be read. In each case, the question will be the one considered to be most representative of those which were submitted. Selection of the questions will be by a small impartial screening committee.
4. Once the question has been asked the President will be asked to reply. Unless the President requests it, there will be no follow up questions and the phone call will be terminated.

cc: Hamilton Jordan	Fran Voorde
Jody Powell	Landon Butler
Frank Moore	Barry Jagoda
Phil Wise	Walt Wurfel
Bob Thomson	Anne Edwards

THE PRESIDENT'S SCHEDULE

Sunday - January 8, 1978

- 9:50. Depart South Grounds via Motorcade en route
The First Baptist Church.
- 10:00 Sunday School.
- 11:00 Morning Worship Service.

THE WHITE HOUSE
WASHINGTON
January 9, 1978

Bob Lipshtuz

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: The Vice President
Stu Eizenstat
Jody Powell
Jim McIntyre

RE: TELLICO DAM LITIGATION

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	/	MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
/		LIPSHUTZ
		MOORE
/		POWELL
		WATSON
/		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
/	WARREN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

January 9, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
BOB LIPSHUTZ *Bob*
JIM MCINTYRE *J.M.*
CECIL ANDRUS *C.A.*
CHARLES WARREN *C.W.*

SUBJECT: Tellico Dam Litigation

The Tennessee Valley Authority has been enjoined from completing the Tellico Dam by a Circuit Court of Appeals Decision which held that the project violates the Endangered Species Act because the reservoir would destroy the critical habitat of a small fish, the snail darter.

At TVA's request, the Associate Solicitor General appealed the case to the Supreme Court last summer. The Supreme Court accepted the case. Interior and CEQ opposed the appeal, but the White House was not informed until after the appeal petition was filed. Justice predicted that the Court would not accept the case, and for that reason no action was taken at the time to withdraw the petition.

While we are reluctant to suggest intervention in this matter, unfortunately, the position of the TVA as articulated by the Associate Solicitor General is in serious conflict with the policies of this Administration.

1. TVA argues that continued appropriations by the Congress for the dam in effect override the Endangered Species Act (legislation by appropriation). The implications of this argument are far-reaching and adverse to the Executive Branch.
2. The Administration has also strongly supported the Endangered Species Act as a workable law.

The Associate Solicitor admits that the TVA position is not necessarily the best legal position, and that a decision in favor of TVA would broaden the ability of Appropriations Committees to legislate by appropriation.

The Solicitor General himself has had to refrain from any involvement in this matter, because he sat on the three-judge panel which unanimously ruled against TVA in the Circuit Court of Appeals.

Although we appreciate the difficult position in which Justice finds itself, we feel it is inappropriate for the Justice Department to represent to the Supreme Court that TVA's position is the position of the U. S. Government when in fact all of the concerned agencies differ with TVA. TVA has independent litigating authority and we need not lend the weight of the Solicitor General to a position we oppose.

We have exhaustively explored a number of options and feel there are three realistic choices:

1. Status Quo. Allow the Justice Department to proceed to represent TVA in this case on behalf of the U. S. Government. Justice is willing to put forward the views of Interior, OMB and CEQ in an appendix to the brief, but would make it clear that the Government's position is TVA's.

Approve _____
(Justice Dept.)

Disapprove _____ ✓

2. Withdraw Representation. Direct the Justice Department to withdraw representation from TVA, with the understanding that TVA would in all probability carry the case forward on its own. Under this option, it is possible, but by no means certain, that the Court would ask the Solicitor General to present the views of the Government, in which case a brief outlining our opposition to TVA's position would be submitted.

Approve _____
(Eizenstat)

Disapprove _____

3. Switch sides. Direct the Justice Department to withdraw representation from TVA and to file

the opposite position (the position of the Administration) in a brief to the Court. TVA would, of course, continue in the case, representing itself.

Approve ✓
(Lipshutz, McIntyre, Andrus, Warren)

Disapprove

The specific facts presented in this case are very difficult, especially since the Dam is nearly completed. If you choose Option 2 or 3, we intend to pursue, with the Interior Department and on the Hill, other ways of solving this particular problem. It might involve an exemption for the Dam or alternative plans for the Valley.

GAO has found the present proposed use of the Dam inefficient and recommended a number of options which would protect the Government's investment. One is to use it as a dry dam instead of a reservoir. The purpose of the dry dam would be flood control which would protect the farmlands and the fish.

We believe that when the leadership of TVA changes in May that they might agree to adopt a number of the GAO suggestions.

780046

THE WHITE HOUSE
WASHINGTON

January 9, 1978

Frank Moore

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

cc: The Vice President Rick Hutcheson
Stu Eizenstat
Hamilton Jordan
Secretary Schlesinger

RE: IMMEDIATE ENERGY CONCERNS

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

include CL comments

ACTION	FYI	
	/	MONDALE
		COSTANZA
	/	EIZENSTAT
	/	JORDAN
		LIPSHUTZ
/		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
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	ARAGON
	BOURNE
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	HUTCHESON
	JAGODA
	GAMMILL

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
/	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

January 7, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
JIM SCHLESINGER

SUBJECT: Immediate Energy Concerns

Jim Schlesinger, working with all affected parties, is developing a preferred administration position on the remaining unsettled natural gas and tax issues in the Energy Conference. A detailed memorandum is now being prepared which will be sent to you in the next week.

The purpose of this memo is to review some immediate actions you might want to take upon your return.

Possible Post-Trip Press Briefing

In terms of initiating a campaign to obtain early action on the Energy Bill, you may want to consider calling an informal meeting with some members of the press soon after your return to develop the theme that the nations of the world are waiting to see if this country does anything about its energy problem. At any such meeting you might want to note that:

- Because energy is so pervasive, because it affects everything we do, the uncertainty over the Energy Bill is affecting the performance of the dollar and investment decisions while it raises increasing doubts around the world about this Nation's resolve. If we don't accept the challenge of getting our energy use under control -- who will?
- Energy is a very difficult subject; it cuts across every special interest and region in the nation; that is why Congress is having so much difficulty.
- But we must have an Energy Bill and soon -- because we must get on with the business of establishing the rules for the future both at home and abroad. That cannot happen until Congress passes the Energy Bill and I shall do everything I can to ensure this happens early in the new session.

Call to Senator Jackson

The key to early passage of the Energy Bill will be a resolution of the natural gas impasse. As was clearly demonstrated by Senator Jackson's non-participation in the pre-holiday natural gas negotiations, he is the key to solving the Natural gas issue. Without his support and cooperation, it will be very difficult to put together a compromise that will be both acceptable to you and a majority of the Senate Conferees.

Thus, it is critical at the earliest possible time to involve Senator Jackson as a partner with the Administration in working out a strategy and proposal that can lead to a final compromise.

Jim Schlesinger is out in Palm Springs with Senator Jackson discussing Jackson's willingness to play such a role. Phone conversations with Senator Jackson over the course of last week, as well as staff contacts, lead us to believe that he is ready to take such a leadership role.

A call from you on Monday, indicating the importance you attach to working with him in reaching a natural gas resolution, would be most helpful. During that call you might:

done

- o Stress the need for Senator Jackson to play a leadership role.
- o Appeal to him on the need for an energy bill because of growing domestic investment uncertainties at home and growing doubts about our resolve abroad.
- o For the same reasons, stress the need to act quickly in the new Session and the need for Jackson to return to Washington early to lay the groundwork for that effort.
- o Indicate that the compromise settlement is a good deal for consumers. New intrastate pricing data shows the dollar impact of continuing without new legislation will result in consumer costs similar to that in the compromise. The higher "base case" results from new information that shows unregulated intrastate contract sales are higher than we had previously understood. Even compared to the House Bill, the compromise proposal only adds \$17 billion to producer revenues, while the total difference between the two bills is \$100 billion. The new legislation would result in

greater gas availability in the interstate market, incremental pricing of high cost gas to industrial users, and the establishment of producer certainty for the future.

- o Stress the importance of continuing to hold Johnston and Ford to any new or revised Johnston approach.

If a call does not seem advisable after Schlesinger's visit, we will get back to you before Monday.

Calls to House Conferees

Recently it has also been made clear to us, particularly by Congressman Dingell, that the group of House Conferees who worked so hard to reach a pre-holiday compromise, have been exposed to extraordinary pressures and criticism from their traditional consumer constituencies. There is a feeling of deep anger on their part towards the Senate for not having responded to their efforts. More importantly, they also feel they acted in response to your request, and that the lack of any publicly expressed Presidential appreciation has made them even more vulnerable. Individual calls early next week to Congressmen Dingell, Ashley, Eckhardt, and Staggers would be an important first step in addressing this concern. In your conversations with them, you might:

- Express your deep appreciation for their efforts and courage in trying to solve the natural gas impasse before the New Year, and your sympathy over the inability of the Senate to respond.
- Your commitment to work more closely with the Senate to find the ten votes that can solve the problem early in the Session.
- Your commitment to stay in constant touch with them as events unfold.

These recommendations came out of a meeting among myself, Jim Schlesinger, Mike Blumenthal, Charlie Schultze, and Jim McIntyre. In addition to these near term initiatives, it was the consensus of the meeting that any further initiatives should await completion of an agreed-upon Administration strategy and substantive proposals.

CONGRESSIONAL LIAISON
COMMENT

THE WHITE HOUSE
WASHINGTON

January 9, 1978

*done -
" 2/11
Scoop: handle it "
J*

MEMORANDUM TO THE PRESIDENT

FROM:

FRANK MOORE
BOB THOMSON

B&B (FM has not seen)

RE:

CALL TO JACKSON RE NATURAL GAS

Stu and Secretary Schlesinger have written a memorandum to you recommending that you call Senator Jackson on natural gas.

We support that recommendation. However, we believe you should not urge the Chairman to support the Johnston-Ford compromise or any formulation at this time.

We are constantly reminded by consumer lobbyists on the Hill that you have promised to consult with them before deciding to support any particular compromise. If you personally argue in support of the Johnston-Ford position, that might be deemed inconsistent with your alleged commitment to the consumer representatives.

We recommend you urge Senator Jackson to take the lead in getting a natural gas bill and ask him what the prospects are for a favorable compromise. His staff has been on the telephone all morning with House and Senate conferees, so the Senator may have some additional information to report.

THE WHITE HOUSE

WASHINGTON

January 7, 1978

MEMORANDUM TO STU EIZENSTAT

FROM: BILL CABLE *Bill*
BOB THOMSON *Bob*

RE: PRESIDENT'S CALL TO CHAIRMAN JACKSON

The call to Jackson is a good idea, if it still necessary when the Secretary returns. We raise two points.

1. If the President is going to personally lobby for the Johnston-Ford compromise, is he obligated to consult with consumer groups first? As you remember, he promised them in a meeting last fall that he would consult with them before making major decisions on the energy package. If he supports the compromise in his talk with Jackson, the implication is that he has decided to approve it.

2. DOE's intrastate pricing studies apparently do not present a contingency based on approval of the consumer groups' FERC petition. As you know, the petition alleges intra-state gas can and should be regulated under current law.

Has the President received an objective analysis of the FERC petition and its chances of success? Has DOE run consumer cost figures for intrastate gas if the petition were approved by FERC? By downplaying the FERC petition, are we giving the President an inaccurate view of the attractiveness of current law when compared to whatever compromise can now emerge from the gas conference?

THE WHITE HOUSE

WASHINGTON

Date: January 7, 1977

MEMORANDUM

FOR ACTION:

Hamilton Jordan
> Frank Moore
Jody Powell
Jack Watson *concur by phone*

FOR INFORMATION:

Vice President

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Eizenstat/Schlesinger memo re Immediate Energy
Concerns

ADMINISTRATIVELY CONFIDENTIAL

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 11:00 a.m.

NO EXTENSIONS

DAY: Monday

DATE: January 9

ACTION REQUESTED:

 X Your comments

Other:

STAFF RESPONSE:

 I concur.

 No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

January 9, 1978

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*

SUBJECT:

A Summary of Kreps Memo on
Implementation of Local Public
Works Program

In the ~~attached~~ memo Secretary Kreps reports on progress in implementing Round II of the LPW program. She makes these main points:

- Round II was better targeted to areas of high unemployment than Round I. Seventy-two percent of all projects were in areas with unemployment rates above the national average.
- States, large cities and smaller towns all participated more extensively in the program in Round II than in Round I. In Round II three times as many counties of less than 5,000 received grants as in Round I, while 93% of the 100 largest cities and all 50 states were participants in Round II.
- About 90% of all projects have gotten underway in 90 days as required by the legislation. The rate of expenditure is expected to be on target in FY 1978.
- Rough estimates of the employment generation impacts indicate that both rounds generated approximately 176,000 jobs in direct on and off site employment.

In addition an estimated 249,000 more jobs were added elsewhere in the economy as a result of the program.

- Preliminary results of the controversial minority business set aside indicate that the program's 10% goal may well be exceeded.

THE WHITE HOUSE
WASHINGTON

January 11, 1978

The Vice President
Jack Watson
Jim McIntyre
Charles Schultze

The attached is forwarded to
you for your information.

Rick Hutcheson

RE: IMPLEMENTATION OF LOCAL PUBLIC
WORKS PROGRAM



January 9, 1978

REPORT TO THE PRESIDENT

"FYI"

SUBJECT: Implementation Status of the
Local Public Works (LPW) Program

The Department of Commerce's Economic Development Administration (EDA) approved 8,555 public works projects for State and local governments during the final quarter of Fiscal Year 1977. This \$4 billion effort is the second round of the LPW program with a first round of \$2 billion involving 2,061 projects occurring early in Fiscal Year 1977 during the transition in Administrations.

Comparison of LPW Round I and II

This Administration's proposal for Round II of LPW program, which were almost wholly adopted by the Congress, corrected the deficiencies of the first round program. I am pleased to report that initial program data reflect a significant improvement in Round II over Round I. As illustrated by the attached table, LPW II funds were better targetted to high unemployment areas; provided for broader participation of all level of government; served more of the major urban areas, and also reached more of the smaller communities as well, including those under 2,500 in population. The average funding amount of the individual projects and the duration of the projects have been reduced which should generate a more rapid economic stimulus. Round II projects also involved appreciably more non-LPW dollars (other Federal, State/local) thus further augmenting the stimulus effect. Highlight data comparing the performance of Round I and II are in the attached table.

Implementation of Round II

o Construction Starts. To date almost 90% of the projects have started construction under the 90-day start requirement. For the remainder, extensions (mostly less than six weeks) have been granted primarily for weather conditions, bidding problems, and to some extent individual project difficulties in achieving the 10% minority business enterprise provision. It is expected that construction will be underway shortly in most of the remaining projects, but weather conditions in the northern states, particularly Alaska, will delay many projects some few months.

o Expenditure Rates. Although most projects are just now getting underway, initial information on expenditures is encouraging. For Fiscal Year 1978 the outlay estimate for the total LPW program is

\$2.3 billion and we expect to achieve it. So far this fiscal year we have almost \$370 million in expenditures accruing from both Rounds I and II and this is running ahead of our monthly planning estimates. Given the slowness of many grantees in drawing down on Federal funds for reimbursing their construction costs already incurred, EDA has established a special computer expenditure tracking system in which each project's rate of construction and rate of expenditures are monitored. The task of monitoring and managing over 10,600 construction projects (Round I and II) is requiring a significant administrative effort on the part of EDA.

o Employment Generation. It is premature to report on the employment generation effects of the program. Estimates have been made using a variety of techniques including computer models and the extrapolation of grantee reports which are now starting to flow in. Reliable data on the employment impact of the program will not be available until completion of the comprehensive evaluation which is now underway.

Rough estimates of the employment impact of the LPW program, however, can be made at this time based on experience from previous comparable programs. Analysis of those programs suggest that over-all LPW (Rounds I and II) will generate about 176,000 person years of employment on site or in construction support industries and an additional 249,000 person years of employment will be generated elsewhere in the general economy through the infusion of the \$6 billion. It should be noted that out of the estimated person years of employment many more different individuals will have periods of employment or "jobs". As the employment generation aspect of LPW is so critical in judging the worth of countercyclical public works as a public policy instrument we intend to carefully study this aspect.

o 10% Minority Business Enterprise Requirement. Progress so far on this provision has been very encouraging and we expect to make our goal of at least \$400 million. Indeed we may exceed it.

Initial reports on 60% of the Round II projects on which successful contractor bids have been placed indicate that about 14% or \$333 million will be going to minority construction or supply enterprises. The 14% rate has been holding fairly constant over the last several weeks and therefore we are hopeful as far as the remaining 40% of LPW projects still to be reported on. We will be more confident of our progress in this area when additional data from the confirming reports from the minority enterprises themselves are received and analyzed. Preliminary data from the confirming reports are sustaining the 14% figure, although due to the reporting time lag this information applies to only 17% of the LPW II funds.

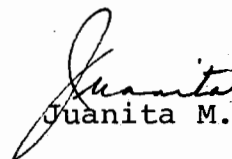
Although these preliminary data are encouraging we will need several more weeks of experience before we can draw any definite conclusions. We are concerned about the possibility of some non-bona fide minority enterprises participating in the program and are pursuing this issue as vigorously as we can. As the 10% MBE provision is receiving so much scrutiny we are being cautious in our public statements until we are more confident of the final results.

I should note that our progress to date on the 10% minority business enterprise has been the result of an intensive Commerce Department effort. EDA developed and enforced tough standards and procedures. There were many law suits and considerable complaints from traditional interests in the construction industry. The Office of Minority Business Enterprise has been helpful in providing technical assistance and other support to the effort as was the Small Business Administration in providing surety bonding and working capital assistance to the minority enterprises. I would be remiss if I failed to mention the support provided by Jack Watson and other members of the White House staff in helping to mount the 10% MBE effort.

In reporting on the status of LPW, it should be noted that the program is providing needed public facilities which will be of much use for many years.

An extensive interim status report on the LPW program is being prepared, which I will be sharing with the Congress.

I believe the Agency's performance in designing and implementing LPW II demonstrates that it can help address national needs and effectively deliver Administration policy.


Juanita M. Kreps

COMPARISON OF PROGRAM CHARACTERISTICS
OF LPW ROUND I AND II

CHARACTERISTIC	LPW ROUND I	LPW ROUND II
Percentage of project funding in areas with unemployment rates above the National average	63.4%	72.0%
Average unemployment rate for areas receiving funds	8.9%	9.4%
Funds going to areas with nine percent or more unemployment rates	46.2%	56.1%
Funds going to areas with less than six and five tenths percent unemployment rates	23.3%	13.8%
Percentage of funds to cities over 50,000 population <u>1/</u>	38.4%	47.1%
Participation by 100 largest cities	65.0%	93.0%
Number of communities under 5,000 population receiving funds	570	1,580
Number of communities under 2,500 population receiving funds	385	1,000
Number of State governments receiving projects	15	50
Funds to be used on projects under twelve months in duration	23.7%	36.4%
Number of county governments receiving projects	190	901 <u>2/</u>
Amount of additional non-LPW funding which went to LPW projects	\$205 million	\$1.04 billion

1/ During the data base period which was used to determine fund allocation these cities accounted for about 46% of the number of the nations unemployed.

2/ Another 78 counties contributed their allocated funds to support other State/local projects.

THE WHITE HOUSE
WASHINGTON

Cabinet
4/9/78

> Trip.

Energy

#

Crown

> 1/19 State of Union

> Econ report 1/20

> Panama statement

> 1/20 Atlanta

> John White

> Jim McInerney

> Alan Miller

Pls oil sale

Affirm action

> Schlesinger trip

> Strauss "

> Fritz "

> 11 Marianas } Commonwealth

> Am Samoa 5:55 - 1914

Saudi Arabia - #

THE WHITE HOUSE
WASHINGTON

S. Univ - Ga, NC, Va problems

Testing/competency mty - 3/78

Too many political speech mty

Econ J Sales, etc. (Invest?)

Early '78 good

Namibia/Rhodesia

Coal strike - no progress

Health/insurance funds gone

Tongue Park - lie detector

FBI director

11905 - UP sign?

Need early confirmation Alan Miller

Long/short term int rates J

NYC aid

Grain elevator explosion

Team strike meeting

Fuel supplies adequate, in coal

Moderately good against Japan

Datron plant -> Mid West

THE WHITE HOUSE
WASHINGTON

Civil service reorg

Budget figures complete

Another Mid W RR bankrupt

(Rock & M. Waukegan)

Air Traffic Controller - agreement

CETA funds. Con Rail, NE Cor.

LPW 10% set aside a problem

Stock market problems

Defense Dept minority contracts

7800 47

THE WHITE HOUSE
WASHINGTON

January 9, 1978

Robert Strauss

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat
Jim McIntyre
Charles Schultze
Zbig Brzezinski

RE: STEEL DECISIONS
LIMITED OFFICIAL USE

THE WHITE HOUSE
WASHINGTON

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

ACTION	FYI
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
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<input checked="" type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	<input type="checkbox"/>

include A + B

MONDALE
COSTANZA
EIZENSTAT
JORDAN
LIPSHUTZ
MOORE
POWELL
WATSON
McINTYRE
SCHULTZE

ENROLLED BILL
AGENCY REPORT
CAB DECISION
EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

ARAGON
BOURNE
BRZEZINSKI
BUTLER
CARP
H. CARTER
CLOUGH
FALLOWS
FIRST LADY
HARDEN
HUTCHESON
JAGODA
GAMMILL

KRAFT
LINDER
MITCHELL
MOE
PETERSON
PETTIGREW
POSTON
PRESS
SCHLESINGER
SCHNEIDERS
STRAUSS
VOORDE
WARREN

THE WHITE HOUSE
WASHINGTON

1/9/78

Mr. President:

No comment from Frank Moore
or CEA.

Comments from Eizenstat,
OMB and NSC are included
within.

Rick

cc Strauss
C

~~THE PRESIDENT HAS SEEN.~~
THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

FROM : Robert S. Strauss *RS*

DEC 27 1977

SUBJECT: Steel Decisions

Two important steel decisions were not dealt with by the Solomon Task Force -- (1) the question of continuing specialty steel import quotas and (2) our disposition of a complaint by the steel industry under section 301 of the Trade Act against the EC/Japanese voluntary agreement that restricts Japanese steel exports to the EC. Both of these issues have been reviewed through our interagency process and the attached memoranda present recommendations for your review on the respective cases. If you accept our recommendations, I would plan to announce the decisions simultaneously in order to minimize any adverse reactions domestically or internationally. The specialty steel recommendation would be favorably received domestically but not internationally. The section 301 case recommendation would generate the opposite reaction.

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for Preservation Purposes**

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS

WASHINGTON

LIMITED OFFICIAL USE

MEMORANDUM FOR THE PRESIDENT

DEC 27 1977

FROM : Robert S. Strauss

SUBJECT: Section 301 Complaint by the American Iron and Steel
Institute

Background

In October 1976, the American Iron and Steel Institute (AISI) filed a formal complaint with the Office of the Special Representative for Trade Negotiations (STR) under section 301 of the Trade Act of 1974. The complaint alleges that the European Community (EC) and Japan had entered an agreement on steel that restricted steel exports from Japan to the EC and resulted in a substantial deflection of Japanese exports to the United States. In June 1977, the AISI proposed that quantitative restrictions be imposed on U.S. steel imports from both Japan and the EC as the appropriate remedy for the deflection problem.

Section 301 of the Trade Act of 1974 confers a right to petition the President through the Special Trade Representative for the elimination of unfair practices of foreign governments that burden U.S. commerce. Under the authority of this section you may take whatever retaliatory action (e.g. quotas, tariffs) you think is appropriate to achieve removal of such unfair practices. In general, there is no internationally accepted framework for such actions, as there is in the case of "escape clause" cases like footwear and color television receivers. Thus, retaliation would most often be contrary to our international commitments, and could result in counter measures being taken against U.S. trade.

We have reviewed the AISI allegations on the basis of publicly available data (including briefs filed in this case) and private discussions with representatives of the EC and Japanese Government. Our findings have been reviewed by the interagency Section 301 Committee consisting of the Departments of State, Treasury, Commerce, Labor, Interior, Agriculture, and Defense.

The length of time taken to prepare recommendations on this case reflects a fundamental dilemma as to how to cope with both the measurement as well as the remedy for a deflection problem. Despite the logic of the case we have been

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unable to clearly establish a causal relationship between the EC/Japan understanding and the surge in Japanese steel exports to the United States. We communicated our concerns informally to the AISI last spring and indicated that dumping appeared to be the industry's major problem. While the causal relationship could not be established, we were reluctant to discontinue the case on the basis of insufficient evidence because that finding would seriously undermine our continuing criticisms of the EC's efforts to do similar deals with other countries and in other product areas and we were not certain that we would not have to resort to some action under section 301 in the face of the worsening steel situation.

Findings

1. The AISI allegation that an agreement exists between the EC and Japan to restrict Japanese steel exports to the EC is essentially correct. While there is no formal or written agreement there is a clear understanding between the two governments. This understanding was reached originally in late 1975 during their regular semi-annual steel consultations, and has been extended regularly in ensuing consultations. It called for a 5% cutback from 1975 shipments by Japan to the EC. On November 28, 1977 the two governments agreed to extend the restriction through 1978 at the same level as the previous two years (1.22 million metric tons). The restriction is implemented through a Japanese cartel approved by the government, consisting of the six largest Japanese steel companies (which account for about 70% of Japanese steel exports). The small Japanese companies are not directly restricted although the large companies and the government probably try to influence their behavior.

2. The AISI allegation that this restriction has caused a substantial deflection of Japanese steel exports to the U.S. market cannot be substantiated. Japanese steel exports to the United States did increase dramatically in 1976 and have remained at those record high levels in 1977. However, Japanese steel exports to the world have behaved in the same fashion, principally reflecting the internal pressures to produce for export because of large overcapacity in relation to depressed domestic steel demand in Japan. Further, Japanese steel exports to the United States of the products covered by the restriction to the EC generally did not increase more rapidly than U.S. demand for those products. Finally, the Japanese cartel shipped substantially less than the agreed amount to the EC suggesting the understanding did not have a substantial restrictive effect. Our conclusion is that if there was any deflection as a result of the understanding, it was very minor.

The surge of Japanese exports to us was basically the result of dumping and stronger demand conditions here as compared with other markets.

3. Even if it could be clearly established that the EC-Japanese understanding had created substantial deflection to the U.S. market, given the facts in this particular situation a more appropriate remedy would be antidumping procedures. The Treasury Department has already concluded that there is sufficient basis to believe there is a pervasive dumping problem in steel trade to justify implementation of a trigger price system on all steel imports. It is likely therefore that any trade restriction, such as the Japanese cartel for exports to the EC, would only increase the likelihood of dumping in other markets. If the dumping is stopped, there would be little basis for a claim of deflection since one would expect U.S. imports to increase from more competitive producing countries, whether or not other markets are restricted.

Recommendations

I recommend that STR announce discontinuance of its review of the AISI section 301 complaint on the grounds that the Treasury Department's trigger price system to deter dumping will eliminate any unfair burden on the U.S. steel industry which may be resulting from the EC-Japanese understanding. I would indicate that while we were able to determine that such an understanding exists, we were unable to measure its impact. We had kept the case under review, however, because significant diversion would have posed a threat in the deteriorating domestic steel situation. As it became clear that widespread dumping was the central trade problem, we turned to antidumping remedies. With the trigger price system, we believe that any unfair burden in U.S. trade due to the EC-Japanese understanding will be remedied. I would announce further that we continue to believe that such informal arrangements are not in the interests of the world trading system and should be brought under better international discipline.

The Departments of State, Treasury, Commerce, Agriculture, Interior, Labor, and the Council of Economic Advisers concur in the above recommendation. Eizenstat and NSC also concur.

There may be some adverse reaction from the domestic steel industry and the Congress to discontinuing this case, however, it may be riskier not to dispose of it. There are already legislative proposals to put statutory deadlines on our handling of section 301 cases, which would limit our flexibility to achieve solutions in these cases, because they

usually involve extended negotiations. The adverse domestic reaction should be ameliorated by the implementation of the trigger price system by Treasury.

The EC and Japan would, of course, welcome dropping the case. It is regrettable that we have no better international rules available to us to cover the arrangement in which they have participated. We are working on a safeguard code in the Multilateral Trade Negotiations which may bring greater discipline to the use of such voluntary export restraints.

RECOMMENDATION: Discontinuance of section 301 case complaining of adverse impact of EC-Japanese steel restraint agreement.

Approve: _____ ✓

Disapprove: _____

Please discuss with me: _____

Other: _____

JC

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

FROM : Robert S. Strauss

DEC 27 1977

SUBJECT: Review of Specialty Steel Import Relief Program

Background

In May 1977, you decided to review the existing specialty steel import relief program and to initiate the procedures required by law prior to reducing or terminating import relief. On your behalf, I requested that the U.S. International Trade Commission (USITC) and the Secretaries of Commerce and Labor provide you with advice on reduction or termination of import relief. The statute requires that you have this advice before making a decision to modify the quotas, but the advice is not binding. Also, your decision to review the quotas does not commit you to modifying them.

*2 Keep
1 Term
1 reduce*

The USITC reported to you in October the results of its study of the probable economic effect on the domestic specialty steel industry of reducing or terminating import relief. Two of the four USITC Commissioners who voted on this issue advised against reduction or termination of relief. A third Commissioner advised that termination of relief would not have a substantial adverse impact on the domestic specialty steel industry. The remaining Commissioner advised that moderate (6.7%) increases in the second and third year quotas for each product category would not have a serious adverse economic effect.

*Labor Keep
Comm "*

In December, the Secretaries of Commerce and Labor reported to you their advice regarding reduction or termination of relief. The Secretary of Labor determined that such action would have a deleterious effect on domestic specialty steel employment, and thus advised that no change be made in the status of import relief. The Secretary of Commerce also recommended that the existing import restraints not be terminated or modified at this time, stating that such action would have a detrimental effect on the domestic industry.

The picture that emerges of the recovery of the domestic industry from the 1975 recession is mixed, with some segments showing substantial improvement and others remaining depressed. Employment increases have generally lagged behind gains in shipments and production. Price performance has also been

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2

mixed with some products showing no downward flexibility while others have moved up and down in line with demand conditions. Profits have improved but remain low relative to earlier peaks and the overall manufacturing average. There have been substantial increases in investment by the industry since the quotas were put into effect.

While there has been considerable grumbling by other countries about the quotas, there is little expectation that the quotas will be eliminated in view of the overall domestic U.S. steel problem. At the moment, the major concern abroad is with the trigger price system for carbon steel (specialty steel will not be covered).

There is no provision for a Congressional override of your decision on this issue. However, there has been considerable Congressional interest in this case, especially from representatives of steel-producing states such as Pennsylvania, Ohio, New York, and Maryland. At least 100 members of the Congress have written you or me on this issue and they almost unanimously support no modification of the quotas. In addition, there have been submitted to us petitions signed by over 100,000 Pennsylvanians as well as petitions and resolutions from numerous other communities urging no change in the quotas.

Recommendations

The interagency Trade Policy Staff Committee (TPSC) has reviewed the USITC, Commerce, and Labor advice regarding reduction or termination of relief. The TPSC (acting on behalf of the Cabinet-level Trade Policy Committee) has a statutory responsibility to make recommendations to you on import relief actions. Set forth below for your decision are the options recommended by one or more TPSC agencies.

No TPSC agency recommended that you terminate specialty steel import relief. All TPSC agencies recommend that you remove chipper knife and RM 81 (band saw) steel from coverage under the alloy tool steel quotas. These two minor products are available only in limited quantities from American manufacturers, and shortages are currently endangering the operations of domestic firms which consume these materials. The domestic specialty steel industry supports exclusion of chipper knife steel and only two firms might oppose exclusion of band saw steel. Sweden has expressed particular interest in the exclusion of chipper knife steel from the quotas.

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3

All TPSC agencies further recommend that, to compensate for the removal of chipper knife and band saw steel from quota coverage, the Swedish and EC third year quotas be reduced. We would consult with the EC and Sweden before making such an adjustment. This adjustment would be small in relation to the total specialty steel quotas due to the small import volume of these two products in the base period but would reduce adverse domestic reaction to the exclusions.

See
Tab B

Option I: The TPSC recommends the following action:

Retain the specialty steel quotas for all product categories at their current levels.

I support this recommendation along with the Departments of Treasury, Commerce, Labor, Interior, Defense, and Agriculture. Eizenstat concurs.

The TPSC recommends no increases in quotas for the following reasons: (1) domestic specialty steel employment conditions have not fully recovered from depressed 1975 levels; (2) most of the domestic industry economic recovery has occurred during the first half of 1977 and this recovery was not sustained in the third quarter of 1977; (3) production levels in the third quarter of 1977 were the lowest since 1975 and unused capacity ranged from one-fourth to three-fifths of total capability depending on the segment of the industry; (4) increased imports resulting from modifying the quotas could significantly reduce the profitability of domestic firms, many of whom are making efforts to adjust to import competition; (5) we would get little credit internationally for modest quota increases and the anti-inflation benefits would be limited; (6) the reactions of the industry, union, and the Congress to even small quota increases would be highly critical. The domestic reaction could well lead to efforts to legislate limits on the President's ability to modify import relief, and (7) a decision against reduction or termination of relief would not endanger the positive climate on steel created by the Solomon program in the Congress, domestic steel firms, the steel workers union and steel communities.

*Why not remove
quotas on chipper
knife & band saw
steel?*

JC

Approve: _____ ✓

Disapprove: _____

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4

See Option II: The Department of State and the Council of Economic
Tab B Advisers recommend the following action: as do OMB and NSC:

 Increase the second year quotas for stainless sheet and strip, bar, and rod by seven percent. Increase the third year quotas for these three products by an additional ten percent (which includes the three percent growth factor already contained in the current third year quota levels). Leave the quota for stainless steel plate at its current levels.

 Agencies favoring Option II recommendations argue that these moderate quota increases (1) are warranted due to the recovery in the domestic industry that has occurred since the imposition of the quotas; (2) would demonstrate our concern about inflationary impact of domestic specialty steel pricing developments; and (3) would generate some favorable international reaction by demonstrating our willingness to relax restrictions as economic conditions improve.

 Approve: _____

 Disapprove: _____

 For your information, I am ~~attaching~~ a copy of the analytical paper upon which the TPSC based its recommendations (Tab A). I am also ~~attaching~~ copies of the USITC, Commerce, and Labor advice regarding reduction or termination of import relief (Tabs B, C, and D).

 Once you have reached a decision, I will prepare the necessary papers to announce and implement your decision.

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TAB A

TAB A - Section 301 Complaint

The Treasury Department supports discontinuance of the steel industry's complaint against the EC/Japanese agreement, but objects to Strauss' statement that the Administration's new trigger price system "will eliminate any unfair burden on the U.S. steel industry."

STR and Treasury have since worked out mutually acceptable language for announcing this decision, according to Stu.

ok
J

TAB B

TAB B - Specialty Steel Quotas

Option I:

Eizenstat concurs with Strauss et al, and cites this additional argument:

- liberalization of the quotas would again subject the Administration to charges of inconsistency in our economic actions -- on the one hand, we develop a trigger price system to protect the domestic steel industry from foreign competition in basic steel, and on the other, we reduce the amount of protection the steel industry has against foreign competition in specialty steel.

Eizenstat recommends, in addition, that you instruct Ambassador Strauss to reflect our concern about inflationary price increases either in his formal announcement of this decision or in private communications with specialty steel manufacturers. We should let the industry know that we expect its continuing economic recovery to be based on the expansion of production -- and not just inflationary price increases.

ok
F

Option II:

OMB and NSC concur with State and CEA.

- OMB: "the recommended relaxation would be a positive indication to domestic and foreign observers alike that the Administration is serious about eliminating unfair imports and minimizing restrictions on imports entering fairly."
- NSC: According to ITC Commissioner Minchew, a moderate increase in quotas would not have an adverse impact on the domestic industry, and would show our trading partners that the US is prepared to reduce import relief when economic conditions improve. Firms producing stainless steel sheet and strip, bars and rods have substantially recovered from the 1975 recession.

THE WHITE HOUSE

WASHINGTON

Date: December 27, 1977

MEMORANDUM

*Call to action
Mon AM*

FOR ACTION:

Stu Eizenstat
Jim McIntyre *attached cover*
Charles Schultze *no by phone*
Zbig Brzezinski *attached*
Blumenthal attached

FOR INFORMATION:

The Vice President
Frank Moore (Les Francis)
Jack Watson

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Strauss memo dated 12/27/77 re Steel Decisions

Extra cc to Gould 9:30 AM

**YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:**

TIME: 12:00 Noon

DAY: Thursday

DATE: December 29, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

Date: December 27, 1977

MEMORANDUM

FOR ACTION:

Secretary Blumenthal

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Strauss memo dated 12/27/77 re Steel Decisions

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YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 12:00 Noon

DAY: Thursday

DATE: December 29, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

<input checked="" type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

cc Blumenthal

ACTION	FYI	
	/	MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
	/	MOORE
		POWELL
	/	WATSON
/		McINTYRE
/		SCHULTZE

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day	

	ARAGON
	BOURNE
/	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

Date: December 27, 1977

MEMORANDUM

FOR ACTION:

Secretary Blumenthal

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Strauss memo dated 12/27/77 re Steel Decisions

LIMITED OFFICIAL USEYOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 12:00 Noon

DAY: Thursday

DATE: December 29, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.☐ No comment.*Please note other comments below:*PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

DEC 28 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Steel Decisions

I concur with Bob Strauss' recommendations in his memorandum of December 27:

-- that you continue specialty steel import quotas without substantial change, and

-- that STR discontinue its review of the steel industry complaint under Section 301 of the Trade Act against the EC/Japanese voluntary agreement restricting Japanese steel exports to the EC.


Although the U.S. specialty steel industry has shown some recovery since import quotas were imposed in June 1975, this recovery remains mixed and may not yet be well established. Therefore, a large increase in existing import quotas would be inappropriate. A small increase, however, would give no meaningful relief to foreign suppliers and might confuse the steel industry as to the Administration's determination to provide it adequate support.

Although I support discontinuance of the steel industry's complaint against the EC/Japanese agreement, I strongly disagree with the proposed reason given in the recommendation section of Bob Strauss' memorandum, i.e., that the Administration's new trigger price system "will eliminate any unfair burden on the U.S. steel industry" caused by the agreement.

We have found no such burden resulting from the agreement. Rather, our recommendation that this review be discontinued is based on the fact that the U.S. steel industry has been unable to substantiate its allegation that the EC/Japanese agreement has caused substantial

deflection of Japanese steel to the U.S. market. This was agreed at the staff level and conveyed to the steel industry last spring, well before the trigger price system had been developed.

I therefore recommend that, in discontinuing this review, STR simply explain that investigation has shown the industry's allegation of injury to be unfounded. I recommend against making any connection between discontinuance and the Administration's new trigger price system.


Anthony M. Solomon
Acting Secretary

MEMORANDUM

NATIONAL SECURITY COUNCIL

January 3, 1978

MEMORANDUM FOR: RICK HUTCHESON
FROM: CHRISTINE DODSON *Cherie*
SUBJECT: Strauss Memo Regarding Steel Decisions

The NSC concurs with Ambassador Strauss' recommendation that STR discontinue the Section 301 case concerning the EC-Japan agreements on steel exports brought by the American Iron and Steel Institute.

With respect to the specialty steel program, the NSC supports State and CEA's Option 2 for the reasons outlined below. This would result in a slight increase in import quotas on certain specialty steel products.

- Since the imposition of import quotas on specialty steel in 1976, many firms in the industry have substantially recovered from the 1975 recession. While the picture is mixed, those firms producing stainless steel sheet and strip, bars and rods are in a strong competitive position. Profits and employment are up.
- ITC Commissioner Minchew found that a moderate increase in quotas for the second and third year of the relief program would not have an adverse impact on the domestic industry. Option 2 is generally consistent with Minchew's findings.
- Our trading partners are concerned about rising protectionism in the U.S. and are following closely our efforts to limit imports of low-priced steel through the reference price system. By increasing quotas on selected specialty steel items, we show that import relief is not permanent and that the U.S. is prepared to reduce or terminate such programs when economic conditions improve.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 29, 1977

MEMORANDUM FOR: RICK HUTCHESON
THRU: Bo Cutler
FROM: Randy Jayne
SUBJECT: Modification of Specialty Steel Import Relief Program

OMB endorses Option II--quota relaxation-- in Bob Strauss' December 27 memorandum on specialty steel. That option would recognize the improved conditions for U.S. producers in certain product lines (stainless sheet, strip, bar, and rod) while retaining planned quotas on stainless steel plate, output of which is still below par. The recommended relaxation would be a positive indication, to domestic and foreign observers alike, that the Administration is serious about both eliminating unfair imports and minimizing restrictions on imports entering fairly.

THE WHITE HOUSE

WASHINGTON

January 9, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
BOB GINSBURG

SUBJECT: Strauss Memorandum on Steel Decisions

Section 301 Complaint

We agree with the unanimous recommendation of Ambassador Strauss and the interagency committee that the STR discontinue its review of the steel industry's Section 301 complaint.

The essence of the complaint is that the EC/Japanese voluntary restraint agreement on steel has caused the diversion of a substantial amount of Japanese steel exports from the EC to the U.S. However, the interagency committee has not found a causal relationship between that agreement and the sharp increase in Japanese steel exports to the U.S. in 1976-1977--that increase seems to have been more the result of dumping and stronger demand for steel in the U.S. than elsewhere.

In his memorandum to you, Tony Solomon concurs with Ambassador Strauss' recommendation for discontinuance but disagrees with the proposed rationale, i.e., that the trigger price system can handle any unfair burden resulting from the EC/Japanese agreement. We understand that Treasury and STR have since worked out mutually acceptable language (which we will review) for announcing this decision--so there is no longer any disagreement.

Specialty Steel Quotas

We also agree with Ambassador Strauss' recommendation that the specialty steel quotas be retained at their current levels (Option I).

In addition to the reasons given by Ambassador Strauss (the domestic industry has not recovered fully, the

political cost would far outweigh any benefit, etc.), we are concerned that liberalization of the quotas would again subject the Administration (unfairly) to charges of inconsistency in our economic actions--on the one hand, we develop a trigger price system to protect the domestic steel industry from foreign competition in basic steel and on the other hand, we reduce the amount of protection the steel industry has against foreign competition in specialty steel.

We also agree with the unanimous interagency recommendation to remove two minor products available only in limited quantities from American manufacturers--chipper knife steel and RM81 band saw steel--from coverage under the quotas.

However, we do think it would be worthwhile to let the specialty steel industry know that we expect its continuing economic recovery to be based on the expansion of production and not just inflationary price increases. A substantial part of the industry's present recovery is due to price increases. While this should be no surprise under a quota system, it is not inevitable and we do not have to give the impression that we are indifferent to the industry's aggressive pricing practices. Accordingly, we recommend that you instruct Ambassador Strauss to reflect our concern about inflationary price increases either in his formal announcement of this decision or in private communications with the specialty steel manufacturers.

180015

THE WHITE HOUSE
WASHINGTON

January 9, 1978

Charles Schultze

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Tim Kraft

RE: AN APPROACH TO REDUCING
INFLATION

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		McINTYRE
/		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day	

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

/	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE PRESIDENT HAS SEEN.

cc Schultze

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C

January 7, 1978

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze

CLS

Subject: An Approach to Reducing Inflation

Your economic advisers have put together a program aimed at getting a gradual reduction in the rate of inflation over the next two years. The basic approach was conceived by Barry Bosworth, the Executive Director of COWPS. All of your economic advisers believe we should pursue it. It will require a commitment of Administration energy and time next year.

The attached memorandum is a brief outline of the approach. We are sending it to George Meany, Doug Fraser, Reg Jones, Irv Shapiro and John DeButts. After they read it, we will meet with them (business and labor separately) to get reactions and suggestions. Bosworth has discussed it extensively with John Dunlop who thinks it is a workable approach.

The Vice President, Stu Eizenstat, and I would like to meet with you briefly on Monday to discuss its substance and implications. I will try to get a time from Tim Kraft.

Welcome back!

Attachment

Charlie - The program
seems (inevitably, I guess) very
general in nature & mostly
wishful thinking. However, I'll
do all I can to help
make it successful.

JC

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C

A Program for Reducing Inflation

The rate of inflation has stabilized over the last two and one-half years within the range of 6-7 percent. There have been short-term deviations from this pattern. But, they have been due almost exclusively to volatile movements in food and fuel prices, with no indication of any longer term trending toward either higher or lower inflation rates. A similar pattern of a generally constant inflation rate is evident on the wage side where 8-9 percent increases in hourly compensation have become the norm. With a standard growth in productivity of about two percent -- down from the near three percent rate of the 1960s -- these increases in employment costs are consistent with the trend in prices and constant profit margins.

There is nothing on the economic horizon to suggest that there will be any substantial departure from the current trend. For the present there are few reasons to expect an acceleration of inflation. At the same time, however, the opportunities for any additional slowing of price and wage increases in an expanding recovery are painfully limited. In the absence of specific government action, the most reasonable expectation would be for inflation to continue in the range of 6-7 percent over the next several years. This said, an important caveat must be kept constantly in mind:

this is that the risks of a higher future rate are greater than the probabilities of moderation, since forecasts assume the absence of any major shocks which unquestionably would add fuel to the inflation.

It is true that we do not face the threat of a sudden explosion of prices such as occurred in 1973-74. Several events have combined during the last two years to reduce the threat of a sharp upward surge in the inflation rate from its current plateau. Grain reserves have been replenished. A current surplus of petroleum and diplomatic negotiations have improved the outlook for stability in energy prices. Capacity shortages continue to be a significant longer term threat, but the tax program will provide incentives for adding to capacity and the acute near term problems are limited to a few industries.

But, we cannot point to similar positive developments which would make possible a significant moderation downward of the inflation rate from its current high plateau, or prevent a gradual move to higher inflation rates as the economy approaches higher levels of employment and capacity utilization.

It is abundantly clear that substantial deceleration will not be forthcoming from any single major market. Agricultural prices have reversed the sharp rise of earlier years and any further declines at the farm level will only create conditions that will lead to major price increases in the future. Similarly, raw material prices have receded from the high levels of 1974 and currently seem close to or below the costs of production.

A potential moderation of food price increases from the rapid pace of 1977 will be more than offset in employer payroll taxes and the higher minimum wage

If we are unable to slow inflation during a period in which economic slack still remains, then we are almost certain to face higher inflation rates by 1980 or 1981 as the economy approaches higher levels of employment and capacity utilization. Because of both public attitudes and economic reality, an accelerating inflation would almost surely bring economic expansion to a halt, reverse progress towards lower unemployment rates, and depress investment spending.

To combine an economic expansion with decelerating inflation is a major challenge, particularly in the third and later years of a business cycle recovery. Such a combination has never been previously achieved. It is unlikely to happen simply by letting events pursue their normal course.

If we are to make progress to moderate inflation it will require strong efforts by both the government and the private sector. The following is an outline of that effort.

I. Government contributions towards moderating inflation

The government will undertake a number of steps itself

- ° incentives for capital formation to promote growth of capacity and productivity
- ° a responsible long-run budgetary policy
- ° improved programs to deal with structural unemployment

- ° substantially improved review, control and simplification of the government regulatory process
- ° hospital cost containment
- ° modest but positive steps to reduce costs and prices directly, by repeal of the telephone excise tax and reduction of the Federal unemployment insurance tax rate
- ° building farmer-owned reserves of grain against future short supplies
- ° the objective of deceleration in the rate of inflation will be applied in the determination of federal pay increases in a fashion similar to that suggested below for the private sector.

II. The private sector

The actions listed above will not alone be sufficient. Slowing inflation while business activity expands will require an effort to decelerate price and wage increases across a broad front of individual markets.

The general characteristics of a deceleration program and its rationale are outlined below. Some of the qualifications to the general concept which would have to be recognized in applying the principle to specific situations are discussed and methods for consultation between the private sector and the government are suggested.

A. Rationale for a Deceleration Concept

There is a need to recognize that the inflation problem cannot be quickly solved in a dramatic fashion. It will be necessary instead to demonstrate sustained, steady progress toward achieving a lower rate over the next several years. In addition, the momentum of the current inflation does not result from unrestrained self-interest or the large price and wage increases of a few. Rather, it reflects the momentum of general price and wage increases that are based on catching up with past inflation, keeping up with others, or on general expectations of continued inflation at the current or higher rate.

Thus, policy would focus on a deceleration of the overall inflation rate with the explicit recognition that such overall deceleration will have to result from deceleration in the vast majority of individual markets. It would begin with the initial proposition that deceleration should and could be achieved in every market. Individual industries should aim to achieve a smaller price increase and individual wage increases should be less than in prior years. However, it is important to emphasize that the amount of deceleration in wages and prices that can be achieved may vary from situation to situation. In other words, we should not expect an equal amount of deceleration in every labor market or industry because of different

circumstances that include such factors as profit margins, labor productivity, import competition, and past wage performance. Thus, the basic proposition would need to recognize several qualifications:

Wages. A focus on deceleration of individual increases is especially difficult on the wage side, because of wide variations in past wage settlements.

- Deceleration cannot be the same for all. Those who have received the largest increases in recent years should decelerate more, and vice-versa. There will also be very special cases where recent gains have been so small as to permit no deceleration.
- There should be a recognition of the need for variations in relative wages from historical trends in response to newly emerging tendencies (such as skill changes, locational shifts, employment growth, changes in productivity trends, the competitive position of a specific industry, etc.).
- Thus, individual situations will vary within an overall pattern of deceleration.
- Also, changes in work rules or practices that significantly affect productivity would be recognized as an integral part of any wage settlement.
- The 1978 increases in employment taxes and the

minimum wage will add to employment costs. The deceleration of costs will have to be large enough to offset these increases if any effective price deceleration is to be achieved.

Prices. Similar qualifications will be required with respect to prices:

- Depressed price-cost margins relative to the historical record will have to rise toward the average. Certainly, there should be no criticism of firms that lowered their price-cost margins during the recession and are now restoring those margins as demand strengthens. However, the improvement in profit-margins, as the expansion continues, should come primarily from higher volume rather than increased prices relative to standard costs.
- Uncontrollable cost acceleration may result from mandated programs (such as regulatory programs, employment taxes increases, and minimum wage changes), tax changes, or imported and other forms of raw materials and some flexibility should apply in those situations. Prior labor contracts may result in cost acceleration which is traceable to decisions made prior to initiation of the deceleration objectives.

- Falling raw materials prices, increased productivity gains, or reduced second and third year wage increases under multi-year contracts should result in greater than average deceleration.

B. Consultation with Individual Industries

The program would involve early discussions between the government and individual industry and labor groups with respect to specific areas which constitute a significant inflation problem. On the price side, firms would be approached separately or, in those situations where legal problems can be overcome, jointly as an industry group; they would be requested to exchange information with CWPS about the outlook for cost increases and market conditions. These discussions would involve cost projections and anticipated supply and demand trends. CWPS would work with staff assigned to the project by the other agencies to develop a briefing paper on the inflation outlook for that firm or industry.

The Chairman of CWPS or other Council members would participate in more extended discussions based upon the staff review of the price-cost outlook and major problems of the industry. An effort would be made to assess the major sources of price increases and to identify specific actions that the parties could undertake to contribute to a moderation of price and cost increases. These discussions should be underway

by February, and in one or two cases where CWPS has been following the industry on a regular basis, could begin informally in January.

Implicit criteria for selecting industries for such discussions would include their importance to the economy, the existence of discretion by individual firms in setting prices and the occurrence of other major developments affecting jobs, prices or costs.

The discussions of major wage negotiations should precede the beginning of bargaining. They would focus on a review of past trends in relative wages, effects of the previous settlement, productivity, and other conditions relevant to the environment of the negotiations. These discussions would provide an opportunity to emphasize the importance of deceleration, possible improvements in productivity and a review of potential barriers to achieving deceleration. By scheduling such discussion prior to the beginning of bargaining there would be no conflict with normal bargaining procedures.

The deceleration concept has several advantages:

- It recognizes that basic rates of price increases must vary among markets because of differences in productivity growth and material cost trends. Yet, virtually all should be able to achieve some deceleration.

- It provides an individual wage or price situation with an understandable objective far in advance of any specific decision. For example, any discussions with the government would take place before the cost increases have occurred and while some discretion with respect to prices still exists. It focuses on efforts to strengthen incentives to minimize future cost increases. It also avoids confrontation over numerous individual price actions.
- It provides a conceptual framework for government actions that reduces the arbitrariness in the selection of specific sectors for focusing efforts to reduce inflation. In those markets where the absence of price or wage discretion rules out discussions with the private parties, it would provide a framework for evaluating and coordinating a wide range of government policies which affect prices and costs. The establishment of a joint labor-management committee, conducted with the responsible government department, may sometimes be a useful means to explore opportunities for reducing costs and improving productivity performance.
- Within this framework specific programs can be developed to reduce inflation in those markets (such

as food, housing and medical care) which are of greatest concern to consumers.

C. Elaboration of the Deceleration Scenario in the CEA Annual Report

The CEA Annual Report would outline the inflation outlook for 1978 within the confines of a deceleration scenario. Among others, the following points should be stressed:

- Some deceleration of retail food prices seems achievable.
- Moderation of energy price increases compared to 1976-77 is doubtful.
- Service prices have increased at a particularly rapid rate. Some deceleration of the rate of increase will occur with passage of the hospital cost containment program, a slowing of local property tax increases, and reduced excise taxes.
- Commodities other than food and fuel typically show a rate of price increase below the overall inflation rate as a result of high productivity growth. But, while the rate of price increase is below the average, it has shown a parallel amount of acceleration compared to earlier periods of lower inflation. Thus, a similar amount of deceleration will be sought in those markets.
- Specific notice should be made of the slower growth

of productivity during the 1970s and its impact on potential real income gains.

- A slower rate of price increase will translate into lower wage increases through the automatic operation of cost-of-living escalators, but more than a passive response will be required.

Given the persistence of a high and continuing rate of inflation, the only strategy which holds promise for returning to reasonable price stability is a gradual and pervasive deceleration of wages and prices. The principal benefits of a deceleration strategy can best be appreciated over a multi-year time frame. In the absence of such a longer-term strategy, there can only be a further institutionalizing of the inflation momentum making eventual resolution even more difficult and traumatic in its effect on the economy. Gradual deceleration supports expectations that price increases will continue to slow, greatly increasing the likelihood that successively lower rates of inflation will be factored into wage and price decisions in future periods. Taking into account its favorable effect on sustaining economic expansion, a successful deceleration effort will improve gains in output, unemployment, and real income.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

January 7, 1977

ADMINISTRATIVELY CONFIDENTIAL

TO: The Vice President
Stu Eizenstat
Hamilton Jordan
Frank Moore
Jack Watson
Jim McIntyre

FROM: Rick Hutcheson

The attached material was forwarded to the President today. If you wish to make any comments, please forward you comments to me by Monday, January 9th at 11:00 a.m.

Thank you.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

1/9/78

Confidential

Mr. President:

What do you think about Warren Christopher as FBI Director? I have not discussed the idea with Grittin or anyone else (it just occurred to me this weekend), but as I thought about it, it seemed to be an idea worth considering. Since I shall be gone all week with the Vice President & since Grittin mentioned he had two names for you to consider this week, I thought it best to go ahead & mention it to you. Warren has many of the very qualities most needed for the job -

Respy - Jack W -

780037

THE WHITE HOUSE
WASHINGTON
January 9, 1978

Midge Costanza
Hamilton Jordan
Stu Eizenstat
Jack Watson
Bob Lipshutz
Frank Moore
Hugh Carter
Jody Powell

Re: Cabinet Summaries

The attached were returned in the President's
outbox today and are forwarded to you for
your personal information.

Rick Hutcheson

Cabinet Summaries from December 16, 1977
through January 6, 1978

EYES ONLY --- ~~CONFIDENTIAL~~ ATTACHMENTS

"DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. 12306, SEC. 13 AND
ARCHIVIST'S MEMO OF MARCH 16, 1993"

THE WHITE HOUSE
WASHINGTON

eyes only

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
/		COSTANZA
/		EIZENSTAT
/		JORDAN
/		LIPSHUTZ
/		MOORE
/		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
/	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN

THE WHITE HOUSE
WASHINGTON

C
/

MEMORANDUM TO: THE PRESIDENT

FROM:

Jack Watson *Jack*

January 7, 1977

RE:

Proposed Agenda

1. Comments on your foreign trip;
2. Comments on your January 19 State of the Union Address, (you might explain the proposed format, length and basic thrust of the speech and note that there will be a longer written version presented to the Congress than the one you give orally);
3. Comments on your plans for:
 - (a) Release of the Economic Report of the President,
 - (b) Your Panama Canal speech to the nation and the necessity for heavy Cabinet involvement on selling the treaties this month and next. (At my meeting with all the Intergovernmental staffs of the departments last Thursday, we distributed a packet of up-dated information materials to be used by the Secretaries in making speeches and comments on the treaties. The department Intergovernmental staffs were to deliver those materials to the Secretaries immediately,)
 - (c) January 20 DNC fundraiser in Atlanta (several members of the Cabinet are planning to attend);

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4. Congratulate John White on his appointment as Chairman of the DNC. (I believe that John will be present in Bob Bergland's place;)

5. Comments on Bill Miller's appointment as Chairman of the Federal Reserve Board;

6. Comments from Cabinet members.

CC: The Vice President

THE WHITE HOUSE
WASHINGTON

C

MEMORANDUM TO: THE PRESIDENT
FROM: Jack Watson *Jack* January 7, 1977
RE: Summaries for the Week of
January 2 - 6, 1977; Miscellaneous
Comments

Attached are the weekly summaries.

* Stu and I have worked out a division of responsibility on the development of a final set of proposals on a national urban policy. My staff is taking the lead in defining the "state and local roles" in a national urban strategy and in fleshing out a workable approach for coordinating federal programs with the state and local efforts. We are giving maximum attention to definition of government incentives for private-sector investments in center cities.

I asked Brendan Byrne to "loan" us the services of the very talented director of his Washington office, Marilyn Berry Thompson, from now until the middle of February. Marilyn is focusing specifically on developing the necessary data and details of "the state role." Brendan said that he was very pleased to help and thought that the project is the most important thing that Marilyn could be working on at this time. We are lucky to have her help.

* Larry Gilson and I have worked closely with the Vice President's staff in working out the details of the Vice President's Western trip this week. The trip will take us into seven Western states and will involve a wide range of meetings and conversations with state and local leaders. The trip will conclude in Nevada with a meeting with twelve or fourteen of the Western Governors. I shall be with the Vice President on the trip.

* We are working with the National Governors' Association on arrangements for the Energy Production Conference to be held in conjunction with the National Governors' Association mid-year meeting here in Washington. Tentative plans call for the meeting to take place on Sunday afternoon, February 26, and Monday afternoon, February 27. I anticipate that your participation will be on Monday afternoon following the same format of our Energy Conservation Conference last summer. I will work closely with Tim Kraft on scheduling your time.

CC: The Vice President



United States
Environmental Protection Agency
Washington, D.C. 20460

January 6, 1978

The Administrator

WEEKLY REPORT TO THE PRESIDENT

FROM: Douglas M. Costle

OCEAN VESSEL DISCHARGES OF HAZARDOUS MATERIALS: The 1977 Clean Water Act directs EPA to issue hazardous substance discharge regulations applicable to all vessels out to 200 miles. The Act provides civil and criminal sanctions for discharging. Certain penalties are clearly applicable to foreign vessels beyond the 12-mile territorial sea and contiguous zone; other penalties may or may not apply to foreign vessels beyond the contiguous zone, depending on whether foreign vessels are subject to United States jurisdiction upon entering our navigable waters. The Congress feels strongly that the 200-mile limit belongs in the law and, despite objections raised by the State Department and others involved in the Law of the Sea negotiations, House-Senate Conference members refused to strike this requirement.

From a strictly environmental standpoint, EPA believes that the newly extended jurisdiction would provide a welcome degree of protection for our ocean resources. At the same time, we recognize the argument that such unilateral action may jeopardize other important United States interests in ocean law. (The United States has always opposed similar actions by foreign governments, on the theory that the legal principle implicit in them could, if extended, be damaging to United States commercial and strategic interests.)

We are preparing to issue hazardous discharge regulations applicable to the 200-mile limit as required by the law. At the same time, we are seeking agreement within the Administration about which administrative or legislative course could best resolve the objections that have been expressed. Any resolution will, of course, have to consider the unusually sensitive Congressional interest in this issue. I believe we are close to a reasonable settlement with the other agencies concerned, and I will keep you informed of any new developments. You should know that the regulations will not take effect until six months after promulgation and this should give us time to work the problems within the Administration and with the Congress.

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THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

January 6, 1978

C
/

MEMORANDUM FOR THE PRESIDENT

ATTENTION: Rick Hutcheson, Staff Secretary
FROM: Brock Adams
SUBJECT: Weekly Report on Significant Issues Pending at
the Department of Transportation

Brock Adams

National Railroad Problems - Update

Information

As I reported last week, I met on Wednesday with state and local personnel, government, and industry officials from the eight states along the Northeast Corridor rail line to stress that unless Amtrak, ConRail, Chessie, and local authorities could reach funding and operational agreements, individual Corridor rail projects could be bypassed. I restressed the urgency of completing basic repair and electrification needs first and keeping costs within the existing \$1.75 billion Federal expenditure level during the period of the project which is supposed to be completed by 1981.

Arrangements for the Chicago meeting on the problems of the midwest railroads discussed in last week's memorandum are in final form and interest in the meeting is very high among the railroad industry, shippers, and the media. After receiving your note, I publically indicated this is the last best chance for all interested parties to propose a private enterprise solution for restructuring the midwestern railroads. I also stressed that carriers in bankruptcy should not automatically expect the Federal Government to keep them running in their present form.

Aviation Regulatory Reform

Information

In our continuing efforts to secure speedy enactment of the aviation regulatory reform bill, I have asked the Department's General Counsel Linda Kamm and the Assistant Secretary for Policy Chester Davenport to meet with the heads of the airline companies at their headquarters to discuss their problems with the legislation and see if a consensus can be developed. Initial meetings with National Airlines and Texas International

and Braniff have been quite promising. The key issue in dispute is automatic market entry without the need for CAB approval. We are trying to assume industry support on other issues. We will be working with the Domestic Policy staff to see if a consensus bill can be developed that provides real regulatory reform. Meetings with other carriers will be held shortly.

World Airways v. Carter, et. al.

Information

World Airways, a supplemental air carrier, has filed a lawsuit in the United States District Court for the District of Columbia in which it alleges that you acted illegally when you vacated the suspensions by the Civil Aeronautics Board of certain low-cost Transatlantic "Super-Apex" fares. World Airways argues that your decision was based on economic reasons only, and thereby you acted outside the scope of the Federal Aviation Act which limits the authority of the President to vacate CAB suspensions to foreign policy or national defense reasons. The United States' response to World's pleadings is due on January 12. We strongly disagree with the World Airways position and are actively assisting the Justice Department in the defense of this suit. I believe it is essential that your full Presidential authority over international aviation matters be retained.

Cleveland's Downtown People Mover Project - Urban Information
Mass Transit Administration (UMTA)

In December, 1976, this Department announced the selection of Cleveland as one of four demonstration sites for a Downtown People Mover program. the intent of the program is to show whether relatively simple, automated systems can provide a reliable and economical solution to travel in congested downtown urban areas.

In May, 1977, Cleveland submitted their \$2 million grant application. However, in November the new Mayor, Dennis J. Kucinick, expressed opposition to the project and asked to withdraw the application. At the same time, the Cleveland City Council passed a resolution supporting the People Mover Project which the new Mayor vetoed, but his veto was overridden. One UMTA eligibility requirement was that each city must demonstrate "support from all elements of the community that share in the responsibility for the project. . ."

The local political division on this project may escalate, and we have been in touch with your White House Intergovernmental

Affairs staff on this matter. In light of the split between Cleveland's executive and legislative branches, DOT has informed the Mayor that it will take no action on Cleveland's pending application.

1977 Drug Interdiction Results

Information

During 1977 the Coast Guard seized or participated in the seizure of fifty-two vessels and their contraband cargoes consisting of 1.4 million pounds of marijuana, 14,000 pounds of thai sticks, and 25 gallons of hashish oil, with a street value of over \$365 million. These seizures are significantly higher than those made in 1976. Attached for your information is a summary of Coast Guard drug enforcement results for the past five years.

The seizure of large quantities of marijuana is the major visible result of the Coast Guard maritime law enforcement effort against drugs. However, during a number of seizures, Coast Guard personnel have observed small packages being jettisoned just prior to the arrival of the boarding party. The few packages recovered before sinking have contained hard drugs and records of trafficking. It is apparently becoming common practice for marijuana smugglers to include other easily disposable drugs in shipments, and to abandon them when Coast Guard boardings are imminent.

Attachment

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THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

January 6, 1978

MEMORANDUM FOR THE PRESIDENT

FROM Robert S. Strauss

SUBJECT Weekly Summary

RS

The morning's Washington Post reports that a current survey of American opinion concludes that 85% of those polled favor increased import restrictions to protect jobs. This feeling is undoubtedly going to strengthen this year and be reflected in the Congress.

The events of the first half of January are concentrated on avoiding the slide toward widespread protectionist actions:

- (1) Your talks with the French and the EC Commission to get their support or acquiescence to moving forward in the Geneva trade talks (MTN). My assessment is that we achieved the maximum possible on this score through your visit and while we are not home free, without this visit we would not have had much of a chance.
- (2) I will travel to Tokyo on January 12 and 13 to meet with Prime Minister Fukuda to obtain greater balance in our economic relations with the Japanese. I am hopeful that we can make some real progress on this trip that will have a significant favorable effect both here at home and in our bilateral relationship with Japan.
- (3) We are coming to the final stages of formulating the U.S. offer of our trade concessions for the Geneva trade talks. I will bring a number of the key issues (such as how much textile tariffs should be cut) to your attention on my return from Tokyo. The offer must be tabled in Geneva by January 20.
- (4) We are holding talks with the European Community this coming week to find out more about their steel plan, which appears in the guise of a reference price system like our own but in fact may severely inhibit trade.

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for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

January 9, 1978

Secretary Blumenthal

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: New York City



THE SECRETARY OF THE TREASURY
WASHINGTON 20220
January 6, 1978

F.Y.I.

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MEMORANDUM FOR THE PRESIDENT

Subject: Highlights of Treasury Activities

1. NEW YORK CITY

As you know, the legislation authorizing our seasonal loan to New York City expires on June 30. The political debate is rapidly heating up over whether Federal support should continue and, if so, how much and what sort.

City and State officials are, of course, lobbying hard for continued help, and Senators Javits and Moynihan have written you in the same vein. On the other hand, Chairman Proxmire and Senator Brooke (Ranking Minority Member) have sent you a long, joint letter -- that has received widespread press attention -- asserting that the City's borrowing needs can be met from local sources.

I have not yet stated a firm position, though I have strongly implied -- and I believe -- that some form of Federal lending, hopefully on a declining or standby basis, will be needed over the next three years. It is clear, however, that getting this from the Congress will be difficult and will certainly require that New York City, New York State, the union pension funds, the banks and other local parties make maximum (and painful) new commitments to the City's financial health.

I am in close touch with all interested groups. As my talks with them continue, the political heat will rise. I urge you to let Treasury take this heat, keeping the White House shielded from the issue as much as possible.

ok

2. EPG ACTIVITIES

At the January 5 meeting of the Steering Committee, your economic advisers continued work on the many aspects of the coordinated economic program to be announced later this month.

A. Scheduling

Within less than a week of your State of the Union Address, we must release the Tax Message, the Economic Report of the President, and the Budget Message. We are working to arrange the schedule of release for maximum impact in the press.

We will be asking for your help in talking to Congressional, business, and labor leaders about our economic program, both before and after the State of the Union.

B. Tax Message

Treasury will have a draft message to the White House early next week.

I am sending you memoranda on two issues in the program: deferral of foreign source income and deductibility of group legal insurance.

C. Anti-Inflation Program

. Cut in the Unemployment Insurance Tax Rate: You decided before Christmas to propose reducing the Federal UI payroll tax rate from .7 to .5 percent as part of our tax program. Congress last year raised the rate from .5 to .7 percent to begin paying off a large debt owed by the Federal UI trust fund to the Treasury. The Steering Committee has tentatively decided that our proposal to reduce the tax rate should be accompanied by a forgiveness of that portion of the debt caused by pre-1977 shortfalls in the Federal Supplementary Benefits Program. That program was put on general revenues in 1977 and is soon due to expire. Extinguishing its past debts would not, therefore, endanger the "insurance principle" underlying the rest of the UI program. Nor would the move affect the United Budget Deficit. We feel that we cannot responsibly reduce the tax rate without dealing in some fashion with the problem of accumulated debt.

. Wage-Price Deceleration Campaign: The Committee wishes to round out our 1978 economic program with a strong, voluntary campaign to induce firms, unions, and individuals to accept lower rates of inflation in their own prices or wages in 1978 than in 1977. We would plan to consult in detail with major firms and unions well in advance of their price and wage decisions, to explore what the deceleration goal should mean in each circumstance. If you accept this approach, we would like you to explain it generally to industry and labor leaders shortly before the State of the Union.

D. Costly Regulation

Next week, the Steering Committee will review in detail possible mechanisms to cut down on overly costly Federal regulation. I personally do not think we are doing near enough in this difficult but extremely important area. We may wish to propose a major Executive-Congressional study of the problem.

3. THE DOLLAR

A. Security Markets

The domestic security markets responded very favorably to the Treasury's mid-week announcement to intervene in support of the dollar through a swap agreement between the Treasury and the West German Bundesbank. The announcement was universally applauded and was effective in dramatically reversing the dollar decline and, by weekend, the dollar had appreciated considerably against the German mark and the Swiss franc.

The stock market was the exception, however, as a combination of developments -- a weaker dollar, a bank prime rate increase of 8 percent, continued weak auto sales and uncertainty over capital spending resulted in a 30 point decline over the abbreviated trading week.

B. Exchange Markets

The foreign exchange market has been testing our resolve to intensify intervention to check speculation and reestablish order. The results of the first few days are encouraging, but we cannot yet be certain that our objectives will be attained. Although the dollar is up, we have not yet achieved satisfactory market conditions and a desired change in behavior regarding the dollar.

4. STEEL TRIGGER PRICES

Reactions to the trigger prices, announced last Wednesday, have been mixed. Foreign reaction has been guarded. Importers, as expected, responded negatively. The domestic firms also responded in guarded terms indicating they have not had time to evaluate the prices. The Federal Trade Commission came out against the system, stating that their investigations revealed that widespread dumping was not a serious problem in the steel industry and that the trigger prices would increase costs to domestic consumers.

To date, there has been no unfavorable reaction from the interested offices on the Hill. The House Ways and Means Trade Subcommittee will hold hearings the week of January 23 on the Administration's steel plan.

Mike

W. Michael Blumenthal



THE DEPUTY SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

January 6, 1978

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Significant Actions, Secretary and Deputy Secretary
of Defense (December 31, 1977 - January 6, 1978)

FY 1979 Defense Budget Briefing: On January 20 Assistant Secretary Fred Wacker, the Department of Defense Comptroller, will brief approximately 125 congressional staff members on your Defense Budget for FY 1979. Harold plans to say a few introductory remarks and Fred will follow with a detailed presentation. These briefings have been well received in past years and tend to produce a more cooperative climate for the follow-on hearings. A similar meeting will be held with the press.

Panama Canal Treaties: Later this month Harold and I plan to address a variety of groups on the Panama Canal treaties. Harold intends to speak at Albuquerque, New Mexico; Phoenix, Arizona; Omaha, Nebraska; and Kansas City, Missouri on January 24 and 25. I will be speaking to the Rotary Club in Charleston, South Carolina, either the Rotary or Kiwanis Club in Raleigh, and Duke University students and faculty on January 17 and 18.

Dinner Meetings with Business and Professional Leaders: Throughout 1978 Harold will be hosting a series of dinner meetings with various groups of business and professional leaders. The purpose of these meetings will be to exchange ideas in an informal setting to learn what is on the minds of knowledgeable persons with whom Harold and I do not deal regularly, and to convey some of our thoughts on defense and other national issues. We plan to hold the first meeting on Monday, January 30 with a group of about twenty corporate chief executives from different parts of the country. I believe these meetings will prove helpful in promoting understanding of the problems before us.

Meeting with Dr. Zwick: John White, Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics), and I met on Wednesday with Charles Zwick, the Chairman of the Presidential Commission on Military Compensation. Dr. Zwick reviewed the progress of the Commission to date and his views concerning the key issues. They are planning to finish on schedule and deliver a report to you on March 15. He urged that the Department maintain a flexible attitude concerning possible reform proposals.

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Meeting with the Service Secretaries: At a meeting of the Service Secretaries this Wednesday, I stressed the importance of the upcoming list of candidate actions for base realignments and closures. The list should be ready about February 15 and we will make an announcement of candidate actions soon thereafter.

Ground-Breaking Ceremony: John Stennis has asked me to join him at a ground-breaking ceremony next Tuesday for the new Army ammunition plant in Picayune, Mississippi. While in the area I will be going to the Litton shipyard at Pascagoula, and Senator Stennis has indicated he would like to join me. I hope this will prove to be a productive day.

A handwritten signature in cursive script, appearing to read "C. W. Humphrey". The signature is written in dark ink and is positioned in the lower right quadrant of the page.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

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January 6, 1978

MEMORANDUM TO THE PRESIDENT

THROUGH Rick Hutcheson
Staff Secretary

SUBJECT: Weekly Report

FARM STRIKE. The Secretary is meeting today with farm strike representatives in Omaha at the request of Nebraska Governor Exon and other governors. Strike leaders say if the meeting is not "favorable" to them they will demonstrate in Washington on January 18. Strike leaders are urging livestock auctions, grain elevators and local businesses to close down from January 8-22. The strike has had no effect on supplies except in isolated local areas where some stores, elevators and food distribution centers have been temporarily closed down.

FARM NUMBERS. From 1976, the number of farms declined one percent to 2.7 million in 1977.

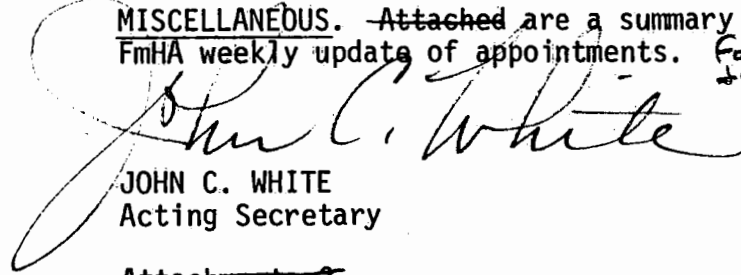
PRC. U.S. agricultural officer in Peking thinks that calendar 1978 grain imports may be as high as 10 million tons. Imports were 4 million tons in 1977. PRC has contracted for 5 million tons for delivery during first half of 1978--none from U.S.

INTERNATIONAL SUGAR PACT. U.N. sources report enough countries have ratified the 1977 International Sugar Agreement to put it into force with a January 1, 1978, effective date.

USSR. On the report released January 5, sales of 38,000 tons of corn formerly bound for "unknown destinations" was reported.

WILDERNESS. The Department is considering recommending a ski area development (substantially reduced from original proposal) in Mineral King Valley in Sequoia National Forest, California. Conservation groups oppose development.

MISCELLANEOUS. Attached are a summary of USDA Hill contacts and the FmHA weekly update of appointments. Forwarded to Frank Moore and Hamilton Jordan, respectively.


JOHN C. WHITE
Acting Secretary

-Attachments-2

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THE SECRETARY OF COMMERCE

WASHINGTON, D.C. 20230

January 6, 1978

"FYI"

REPORT TO THE PRESIDENT

U.S. Industrial Outlook: 1978

This week the Department issued its annual forecast on the U.S. industrial outlook, reflecting our analyses of 150 U.S. manufacturing industries and 42 non-manufacturing industries. In general, the forecast is consistent with our expectation that the 1978 rate of increase in Gross National Product will be between 4 and 5 percent in real terms. We believe this report provides a sound and helpful framework of industry-specific information for both private and public economic decision-making.

Status of the Economy


Economic data released by the Department over the past few days continue to indicate strong growth in final sales in the fourth quarter; however, manufacturers' inventory accumulation has been slower than anticipated.

Steel Industry Assistance

In cooperation with other Federal agencies, the steel industry and the banking community, the Department is preparing guidelines for the new loan guarantee program established to help modernize steel facilities owned by firms having serious financial problems. This program will not require additional appropriations because of the availability of funds repaid on Economic Development Administration loans over the past 16 years. OMB has released sufficient funds to support over \$500 million in guaranteed loans under this program. To coordinate Federal assistance for the Youngstown area, we have established the Youngstown Interagency Steel Committee composed of representatives from the Departments of Commerce, Labor, HUD and Energy, thus fulfilling the Administration's pledge to provide a unified and coordinated mechanism for delivering Federal assistance to the Youngstown area.

Voluntary Labeling Program

Thermal insulation for houses has been selected as the first product in the National Bureau of Standards' voluntary Consumer Product Information Labeling Program. We expect this program to be a special help to consumers in making informed purchasing decisions based upon technical performance characteristics.


Juanita M. Kreps

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

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January 6, 1977

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze
Subject: CEA Weekly Report

Economic Report. CEA's staff is working full time preparing the CEA annual report, which we will publish on January 30, and the Economic Report of the President. I have sent a draft outline of your Economic Report to you for your comments and guidance. My staff and I also have been working closely with the speechwriters to assist them in preparing your State of the Union address.

Inflation Program. During your trip, your economic advisers met to discuss further the "deceleration" initiative described to you in our final memo on the economic outlook and fiscal policy. We are consulting with a limited group of business and labor leaders on this proposal. We will wish to meet with you late in the coming week to inform you of the outcome of our consultations and to seek your decision whether to proceed with this program.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
722 JACKSON PLACE, N. W.
WASHINGTON, D. C. 20006

January 6, 1978

C

MEMORANDUM FOR THE PRESIDENT

FROM: Charles Warren *Charles Warren*
Gus Speth
Marion Edey

SUBJECT: Weekly Status Report

Happy New Year Mr. President and welcome home. Your trip abroad has been favorably reported and well received.

We have nothing warranting your attention to report this week.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

January 6, 1978

MEMORANDUM FOR: The President
Attention: Rick Hutcheson, Staff Secretary

SUBJECT: Weekly Report of Major Departmental Activities

The following are brief descriptions of significant activities at the Department of Housing and Urban Development.

Team of Experts to Assist Youngstown, Ohio. The Department has awarded a contract to the National Center for Economic Alternatives to explore the full range of possibilities for saving the jobs of 5,000 steel workers affected by the announced closing of the Youngstown Sheet and Tube Company. A team of financial and industry experts will work with citizen groups and business leaders of Youngstown to determine how Federal funds -- including the innovative feature of HUD's new Urban Development Action Grants -- can best be used to solve the urban area's economic problems.

It is expected that findings developed under the contract will suggest ways in which Federal agencies may channel assistance into efforts to restore Youngstown's economy. Ideas and plans developed are also expected to be applicable to other communities faced with major plant shutdowns and the consequent loss of jobs.

Paperwork Reduction. HUD has reduced its paperwork by 7 percent, 2 percent above its OMB approved goal. We are continuing the reduction activity.

Senator Proxmire Tours South Bronx Area. On December 27 HUD's Regional Administrator in New York accompanied Senator Proxmire on a tour of areas of Manhattan and the South Bronx. The purpose of the Senator's tour was to see HUD-assisted projects under construction and already completed as well as other buildings and areas in need of aid.

The Senator appeared to be impressed by the well-maintained appearance of public housing even in the worse areas of the Bronx and our Regional Administrator explained the role of modernization funds and operating subsidies in preserving the buildings. The Senator also expressed interest in the use of the Government

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National Mortgage Association's Tandem program to finance rehabilitation in selected inner city neighborhoods to provide employment opportunities and increase the feasibility of residential rehabilitation.

Credit Unions to Provide New Source of Home Financing.
The Department has approved an application by the Navy Federal Credit Union of Washington, D. C., to make FHA-insured loans, a first step in this Department's efforts to tap a new source of funds for residential mortgage loans. Since credit unions are assuming an increasing role as depository financial institutions, this new source of mortgage loan funds is expected to help assure a steady flow of credit to homebuyers. There are now some 13,000 Federal Credit Unions with assets totaling \$27 billion.

The Navy organization, which has approximately 43,000 members, will begin making insured loans as soon as regulations of the National Credit Union Administration become final.

FHA Activity Shows Major Increase. Activity in the FHA Title I Home Improvement and Mobile Home program increased significantly during 1977. Preliminary data indicate that HUD insured over \$1 billion of property improvement loans, a 77 percent increase over the amount insured during 1976. Mobile Home program loans in excess of \$2 million were insured during 1977, an increase of 57 percent from the prior year. Legislative changes in these two programs during 1977 should ensure even greater increases in activity during 1978.

New Foreclosure Procedure Demonstrates Substantial Cost Saving. A random sampling of 73 cases in eight states indicates that a new single family foreclosure procedure that assigns mortgages to approved mortgagees for purposes of foreclosure instead of sending the cases to the Department of Justice has reduced average foreclosure time and HUD's holding costs in judicial foreclosure states. The average time saving was 70.9 months. At the present rate of \$8 per day holding costs, the saving to HUD in the 73 cases totaled \$363,696, an average of \$4,982 per property. /

Pat

Patricia Roberts Harris



THE SECRETARY OF THE INTERIOR
WASHINGTON

January 6, 1978

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MEMORANDUM TO THE PRESIDENT

From: Secretary of the Interior

Subject: Major Topics for the Week of January 2

Interior's legislative plan for 1978 is prepared and positive.

Vice Presidential trip to the West is scheduled for next week. There will be some flak, but the results will be positive.

I can see the end of our water problems. The results will not be universally acceptable, but they will be right.

The internal rumor mill is saying that our reorganization effort has been stalled. I will work with Jim McIntyre and keep you advised.

We have worked out a solution that is acceptable to Senator Talmadge and Congressman Bo Ginn on the Cumberland departure point. Your plan for the Island is proceeding with the help of Tanner and Candler.


CECIL D. ANDRUS

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Administrator

January 6, 1978

MEMORANDUM TO THE PRESIDENT

THRU: Rick Hutcheson

SUBJECT: Weekly Report of GSA Activities

Possible Relocation of Defense Contract Administration Services (LA)

In a meeting in Los Angeles on December 28, the GSA Regional Administrator met with Mayor Bradley and two other City officials to discuss the concerns expressed in the Mayor's December 1 letter to you regarding the possible relocation of the Defense Contract Administration Services Region Office from Los Angeles to Laguna Niguel. It was explained that no such relocation is possible until Congressional committees take action on a pending prospectus. This is not expected to take place for several months. It was also explained that moderate and low income housing plans now underway would have to be completed, and that DCASR is but one of several possibilities under consideration. Mayor Bradley was relieved to learn that relocation not only was not imminent, but that it might not occur at all. The meeting was positive, friendly and constructive.

Soviets Visit

During the period from December 11 - 20, 1977, GSA hosted five Soviet experts in relation to our participation in the US/USSR Joint Committee on Cooperation in the Field of Housing and Other Construction. GSA is the lead U.S. agency for a Joint US/USSR Working Group on Construction Management and Building Design. While they were here, the Soviets visited projects in New York City; Lake Placid, New York; and Washington, DC. On the eve of their departure from the U.S., I hosted a reception in their honor in my office.

Small Business Contract Awards

We are pleased to report that we exceeded our goal of 41% for awards to small business in FY77. An end-of-the-year report indicates that total GSA awards to small business concerns amounted to 42.6% of the total volume of contract awards made by the agency in the year ended September 30.


JAY SOLOMON
Administrator

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U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

"FYI" C
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January 6, 1978

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY OF LABOR, Ray Marshall *for*
SUBJECT: Major Departmental Activities, December 31 - January 6

COAL STRIKE

Earlier this week we thought we had an agreement on a contract settlement, but it fell apart because of the leadership problems of the United Mine Workers. Bargaining is likely to begin again on January 10. There is an increasing level of violence in the coal fields, mostly involving union members who are trying to close non-union mines.

GRAIN ELEVATOR EXPLOSIONS

Today, the Occupational Safety and Health Administration (OSHA) issued a hazard alert on grain elevators which outlines safe operating procedures for grain elevator operators and their employees. I have talked with Bob Bergland and Assistant Secretary John White about ways in which OSHA and the Federal Grain Inspection Service can cooperate closely in the future.

ECONOMIC STIMULUS PACKAGE--CETA

Our estimates indicate that we will make our target of 725,000 public service jobs by the end of February or early March. This will be close to the schedule that we outlined when the appropriation passed Congress last May. We passed the 600,000 mark in mid-December.



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

January 6, 1978

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Weekly Report on HEW Activities

The following is my weekly report on significant activities in the Department of Health, Education, and Welfare:

- Handicapped: Pursuant to an Executive Order issued by President Ford, I announced on Wednesday final guidelines for government-wide enforcement of Section 504 of the Rehabilitation Act of 1973 which bans discrimination against the handicapped. These guidelines require all Departments and Agencies to issue their own regulations implementing Section 504, and the new regulations must, in broad outline, follow HEW's 504 regulation which, inter alia, requires that all programs receiving federal funds be made accessible to handicapped citizens and that new facilities built by recipients must be barrier free.
- Basic Skills: As part of your efforts to promote development of basic skills in elementary and secondary education, I yesterday announced two grants to a community-based organization directed by Reverend Jesse Jackson. These grants will help evaluate, improve, and plan the expansion of his EXCEL Program, which seeks to mobilize community leaders and parents to generate and reinforce in students a desire to improve basic skills and a respect for school, teachers, family, and self. This program -- which aims at hard-to-reach disadvantaged students -- has been successful in the cities where it has operated (Los Angeles, Chicago, and Kansas City). These grants were spurred by Senator Humphrey's initiative: he called me late one evening to report his favorable impressions of this project. Congressman Parren Mitchell, Mayor Tom Bradley and Vernon Jordan, as well as Senator Humphrey, issued statements supporting the grants and the program.
- School Violence: Yesterday I transmitted to Congress a response to a request made in 1974 for a study of violence in the Nation's elementary and secondary schools. The study showed a disturbing incidence of violence:

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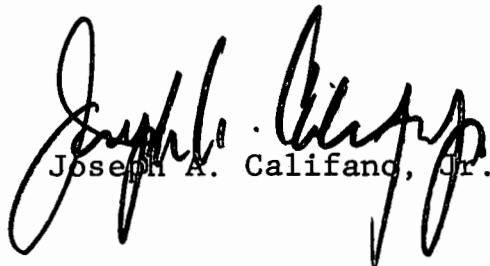
- Some 2.4 million students (11 percent) have something stolen from them in a given month;
- About 120,000 teachers (12 percent) are victims of robbery, and some 5,200 are physically attacked, each month on the average.
- Over 25 percent of all schools are subject to vandalism in a given month.

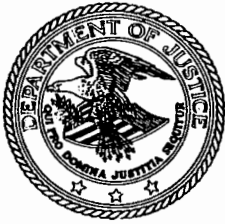
The study shows that one of the most important differences between a safe school and a violent one is a strong principal who shows his or her dedication to the school and institutes firm, fair, and consistent discipline.

- Chief State School Officers: I have sent, under separate cover, a memo outlining my suggestions for your Wednesday evening meeting with the Chiefs. I will forward suggested talking points for you to Stu.
- Anti-smoking Program: On Wednesday, the 14th anniversary of the first Surgeon General's report, I will announce a program to combat the dangers of smoking. The program will be sensitive to the rights of citizens; it is designed to enable individuals to make informed choices.

In December I met with Members of Congress from the tobacco-producing states. I told them that while I intend to deal vigorously with the health problems of smoking, I am sensitive to the needs of their constituents and, in line with your public commitments, will not recommend any changes in the tobacco price-support program. No evidence has been brought to my attention that the tobacco subsidy encourages anyone to smoke.

- Reports: Next week, I will be forwarding to you a final report on my trip to Europe to look at systems of national health insurance and a report on HEW's activities during 1977. Both will be released to the press after transmission to you.


Joseph A. Califano, Jr.



Office of the Attorney General

Washington, D. C. 20530

January 6, 1978

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Re: Principal Activities of the Department of Justice
for the Week of January 2 through January 6

1. Meetings and Events

During the last two weeks the Attorney General has spoken with several potential candidates for nomination as Director of the FBI. He expects to present the names of two candidates to the President early next week and plans to schedule appointments for them at the President's convenience. On Thursday, the Attorney General met with Chairman Rodino to discuss the proposed reorganization of LEAA. During the course of the meeting, Chairman Rodino expressed his view of the importance of this Administration maintaining a strong criminal justice program, and he was assured that the Department would submit a proposed reorganization package to the Judiciary Committee for hearings prior to its submission under the Reorganization Act, and that the Judiciary Committee would schedule those hearings to begin in February or March.

2. KCIA

On Friday, Ben Civiletti and Paul Michel left for Seoul to begin interviews with Tong Sun Park. Under the present arrangement, they will be able to ask Mr. Park questions under oath and subject to a lie detector. They were accompanied on the trip by a representative of the Senate Ethics Committee, who will be present during the questioning.

3. FBI Report

The Attorney General is preparing to issue a report on the results of an intensive investigation of allegations of financial wrongdoing at the FBI which were discussed during the 1976 presidential campaign. The report will deal with provision of personal services to FBI officials, misuse of various confidential funds and recreation funds, and the FBI's exclusive "sweetheart" relationship with the U.S. Recording Corporation, an electronics equipment supplier.

4. Indochinese Refugees

On Wednesday, January 4, 1978, the Attorney General wrote the relevant members of Congress that it was his present intention to authorize on January 11, 1978 the parole, under his statutory discretionary parole authority, of an additional 7,000 Indochinese "boat case" refugees. Congressman Eilberg, Chairman of the House Subcommittee on Immigration, indicated Thursday he would like to delay a final decision until the Congress reconvenes to allow additional congressional "consultation" and possible hearings. Chairman Rodino and Congressman McClory have told the Attorney General that they have no objection to the parole. The Attorney General has offered to send teams from the Department of State and INS to Philadelphia to consult further with Mr. Eilberg; it is not presently known if this offer will be accepted. Congressional consultation for such paroles is not statutorily required, but it is zealously protected as a tradition by members of Congress.

5. Undocumented Aliens

The Attorney General has accepted an invitation delivered by the Mexican Ambassador to the United States to go to Mexico City February 3-5, 1978 to discuss with Mexican governmental officials the undocumented alien problem. Congressional sponsors of the Administration's legislation have been invited by the Attorney General to accompany him. To date, Chairman Rodino and Senator DeConcini have accepted. Mexico's Attorney General Flores-Sanchez will host the visit. It is anticipated that a brief meeting will be held with President Lopez-Portillo. This trip will follow Vice President Mondale's visit to Mexico in January and will precede and serve as an educational vehicle for the anticipated hearings in the Senate in February before Senator Eastland's immigration subcommittee of the Judiciary Committee.

6. The Department's weekly reports on status of appointments and legislative activities will be resumed when Congress reconvenes.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

MINUTES OF THE CABINET MEETING

Monday, January 9, 1978

The thirty-seventh meeting of the Cabinet was called to order by the President at 9:01 a.m., Monday, January 9, 1978. All Cabinet members were present except Dr. Schlesinger, who was represented by Deputy Secretary of Energy John O'Leary. Other persons present were:

Joe Aragon	Bob Lipshutz
Peter Bourne	Bunny Mitchell
Zbig Brzezinski	Dick Moe
Landon Butler	Dick Pettigrew
Bill Cable	Jody Powell
Hugh Carter	Frank Press
Doug Costle	Charles Schultze
Stu Eizenstat	Jay Solomon
Jane Frank	Stansfield Turner
Richard Harden	Jack Watson

The President briefly summarized his foreign trip. He said that there was notable improvement in relations between the United States and every country he visited:

- ° The Poles genuinely want peaceful relations and there is general acceptance privately throughout the Arab world of our position in the Middle East;
- ° His visit to India was perhaps the most interesting: he had long detailed discussions with President Reddy and his Cabinet and visited a village similar to the one his mother worked in while in the Peace Corps. He said that the U.S. will ship nuclear fuel to India, but he made it clear to that country that the Congress would pass, with his approval, legislation providing safeguards for the fuel shipments;

- ° In his brief stop in Saudi Arabia, King Khalid seemed in good health and aware of minute details of the school system in his country. The President said that he expressed his appreciation to the Saudis for holding the line on oil prices for the next six months and noted that a press account stated that the Saudis would hold down oil prices through 1978. He said that Saudi women entertained the wives of U.S. visitors for the first time, and Mrs. Carter had good discussions with them;
- ° His visit to France was "exhilarating:" French Prime Minister Giscard d'Estaing made his welcoming speech in French and English; 4,500 people attended a banquet at Versailles; discussions with the French were substantive and concerned the European Economic Community and NATO, among other issues;
- ° The one negative aspect of the trip was the repeated concern with the shakiness of the dollar which foreign leaders blamed on our failure to enact energy legislation and thereby reduce our dependence on foreign oil. The President said that he tried to allay these concerns.

The President asked for comments from Cabinet members, beginning with the Secretary of State:

1. Mr. Vance said that the trip had been very good and concurred with the President's assessment that relations were measurably strengthened in each country they visited.

-- He said that the Poles want to increase wheat purchases and requested additional Commodity Credit Corporation (CCC) credits up to \$200 million. Productive discussions were held on family unification: the President and Polish First Secretary Gierek reached fundamental agreement on this subject, which Mr. Vance pursued on the ministerial level; 116 out of 160 cases are now being worked out. There were also discussions on the East/West situation.

-- Mr. Vance said that the most important discussions were with Egyptian President Sadat concerning the formulation

of the three key principles governing settlement of the Middle East question. These discussions added a new dimension to the negotiations and the results were well received in the Arab countries and Israel. Mr. Vance will go to Israel next week to meet with the other foreign ministers to work out: 1) a statement of principles; 2) guidelines for a settlement of the Jerusalem question; and, 3) an outline of the essential elements of a peace treaty to apply across the board. The discussions among the foreign ministers will focus mostly on the first two items.

-- In the course of the trip, Mr. Vance visited Hungary to return the Crown of St. Stephen. He said that the Administration's decision to return the Crown was the right one and that it is an historic and religious symbol of enormous impact to Hungary and other Eastern European nations.

-- The question of the African Horn was discussed in Iran at some length. The U.S. concurs in the view that all countries concerned must get behind an effort for a cease-fire.

-- On a separate subject, Mr. Vance said that the Panama Canal treaties will be sent to the Senate floor at the end of January or early February, and that several members of the Administration--the Vice President, Messrs. Brown and Vance--will begin an intensified campaign throughout the country to promote ratification of the treaties. He predicted that the treaties will be ratified but that it will take hard work.

-- The Attorney General said that he had been asked in recent testimony on the Hill about whether reservations were needed to Articles 4 and 6 of the treaties. Mr. Vance said that an effort would be made to hold down substantive modifications to the treaties. The President said that he will deliver a fireside chat to the Nation on the Panama Canal treaties soon which should clarify their meaning. He noted that Frank Moore had called him over the weekend from Mexico City where he is with Senator Baker to discuss the possibility of a Memorandum of Understanding concerning some parts of the treaties.

2. Mr. Andrus said that there are two new popularly-elected Governors in American Samoa and the Northern Marianas. Interior Under Secretary James Joseph attended their recent inauguration ceremonies and reported that the

new satellite communication system, which was used to transmit the President's video message, was excellent. The President said that he was proud of developments in both Commonwealths--the first territories added to the United States since the Virgin Islands in 1914. He said that his son Jeff had represented him at the inaugural ceremonies.

-- Mr. Andrus said that he will accompany the Vice President, Messrs. Bergland, Watson and others on a trip to several Western states this week.

3. Mr. Califano thanked the Cabinet for its help on the regulations concerning the handicapped. He said that the timetable for implementing the regulations can be met by the whole government.

-- He said that yesterday's New York Times article on the problems with university audits cited old cases but did present a serious problem in which both HEW and the universities are at fault. He will meet shortly with university presidents about this.

-- Mr. Califano must decide within two weeks whether school systems in six southern states are in compliance with U.S. District Court Judge Pratt's desegregation order. Mr. Califano said that a settlement has been reached concerning the most onerous parts of Judge Pratt's order, and also that OMB has authorized additional personnel slots in HEW's Office of Civil Rights to speed compliance efforts.

-- The subject of testing and basic skills will be discussed at a Howard University conference this spring, scheduled on the anniversary of the Brown v. Board of Education decision. HEW is reprogramming some money this year to focus on testing issues.

-- He is receiving an increasing number of requests to make political trips and asks for guidance on which ones to accept. The President said that such requests should be cleared through the Vice President and Mr. Moore.

4. Mr. Schultze said that the economy was on the up-beat during the last months of 1977 and the beginning of 1978. This is explained by increased consumer demand and the continued effects of the Administration's economic stimulus program. Sales are up more than production. There has been a rise in investment, which is still not

strong enough if we are to avoid shortages by the 1980's. He reiterated that we must fight two major drags: 1) the large increase in taxes due to Social Security reform and inflation; 2) the effect of foreign imports. He said that the Administration's tax program will overcome parts of the drag but is not really an economic stimulus program.

-- The CEA is preparing a separate economic report for the President to be submitted the day after the State of the Union Message--to put the budget, tax program and related economic programs in a larger context.

-- Mr. Schultze said that new unemployment figures will be available on Wednesday.

-- Several members of the Cabinet discussed business confidence. The President noted that General Motors' year-end report was very positive about the Administration, although a recent New York Times poll on business confidence was negative. Ambassador Strauss said that the key to increasing confidence is passage of the energy bill.

5. The President thanked the Vice President and others for their recommendation of William Miller to be Chairman of the Federal Reserve Board. He described the nomination as a "stroke of genius," widely hailed by business, Congress and others. He also is enthusiastic about naming Mr. McIntyre as Director of OMB, and about the fact that John White will be elected Chairman of the Democratic National Committee later this month. He added that former DNC Chairman Ken Curtis did a good job.

6. The President commended Mr. Brzezinski's appearance on Sunday's Meet the Press.

-- Dr. Brzezinski said that democracy and human rights were also discussed in each country visited on the President's foreign trip. The President's visit to Poland was the first time a U.S. President has gone to Eastern Europe without visiting the USSR first--a gesture which underlines our interest in pluralism in Eastern Europe. He discussed the visit by Mrs. Carter and him to Polish Cardinal Wyszynski. He said that relations between the U.S. and India and France are "more friendly and mature than in the past." The U.S. commitment to beef up its NATO forces was reassuring to NATO. Our proposed nuclear agreement with Iran will be productive economically. Mr. Vance added that career foreign officials in France commented that relations have never been more friendly between that country and ours.

7. Ambassador Young said that the Rhodesia and Namibia talks are "creeping along." The U.S. is trying to make progress in the next month and still hopes for an international rather than an internal settlement in each case.

8. Mr. Marshall said that the coal strike situation is not improved. A pre-New Year proposed settlement did not work out. Press leaks have hampered the negotiations. He continues to believe that intervention by the U.S. is not warranted at this time. The most serious problems are spreading violence, expiration of pension funds, and the need for "patching arrangements" to assure health care where benefits have already stopped.

9. The Attorney General said that the Justice Department had negotiated a good agreement with Tongsun Park to have him appear as a witness in U.S. trials and to take lie detector and stress tests while he testifies in exchange for immunity from prosecution. This agreement may be upset by the reactions of the House Congressional Committee.

-- He has set up appointments for the President to interview possible FBI nominees.

-- He said that the Justice Department is working on some final revisions to Executive Order 11905 concerning relations between the various intelligence agencies and the President and Attorney General.

-- He noted that the U.S. successfully defended a suit by Senator Dole in Kansas challenging our right to return the Hungarian Crown.

10. The Vice President said that there are three Senate priorities at the beginning of this session: 1) to get the energy bill out; 2) to have early confirmation hearings on Bill Miller; and 3) to ratify the Panama Canal treaties.

-- He said that he will prepare comments on scheduling of political events for the next Cabinet meeting.

11. Mr. Blumenthal said that passage of the energy bill is critical in restoring confidence in the international financial markets. He explained the significance of the Fed's decision late last week to raise the rediscount rate. Although the economy is improving, there is real pressure on long-term interest rates.

-- He said that federal funds for New York City run out in June. There are a variety of options between pouring in lots of money and giving no aid. Congress is likely to be reticent to provide a lot of money and the situation is complicated by the election in New York State and Governor Carey's announcement that he wants a \$750 million tax cut. Mr. Blumenthal will be in New York City tomorrow and will say that the city and state have the burden of proof to answer the recent letter from Senators Proxmire and Brooke on the subject of federal financial aid. He suggested that Treasury take the lead for the next few months.

12. Mr. Bergland said that recent explosions in grain storage facilities killed twelve people although grain storage capacity was not substantially impaired. Another explosion, however, will cause grain storage workers to walk off their jobs. He said that the Labor Department and OSHA did a good job in working on the recent emergency and that Labor and EPA are attempting to minimize the chance of any such occurrence in the future. He met with Nebraska Governor Exon in Omaha last Friday about this situation.

13. Ms. Harris said that she had nothing to report.

14. Mr. O'Leary said that Dr. Schlesinger is visiting Morocco and Saudi Arabia.

-- He said that domestic energy supplies are presently in a surplus situation. There will be coal this winter unless the coal strike is attenuated. Natural gas supplies are better than last year. Exxon recently announced a one cent reduction in the price of gasoline.

-- He said that at the direct invitation of Secretary Schlesinger, the Chinese Petroleum Corporation delegation is the first PRC delegation to visit our country. The delegation's two leaders are both Vice Ministers in the PRC government. The Vice Ministers prefer to travel under their unofficial titles. This is the highest ranking PRC group to ever visit the U.S.

15. Ambassador Strauss said that he leaves for Japan today to consummate a trade agreement with that country. The agreement is not as strong as he would like, but overall he views it as a success. He thanked the Cabinet for their help and noted the excellent cooperation from Congress. He will also pursue bilateral negotiations with Japan on locating a major automotive plant in the U.S.

16. Mr. McIntyre thanked the President for his support.

-- This week OMB will complete its recommendations on reorganizing the Civil Service system.

-- The FY '79 budget figures are now firm and OMB is working on the narrative portion to be completed this week.

17. Mr. Adams said that he will send a memorandum to the President this week on the implications of the bankruptcy of a major mid-West railroad. DOT is trying to achieve private restructuring of that railroad and to avoid a federal takeover.

-- DOT and the Professional Air Traffic Controllers Organization (PATCO) have reached a tentative three-year agreement to settle the air controllers' strike. Ratification is expected February 15.

-- Mr. Adams plans to talk to Mr. Marshall concerning CETA funds for the Northeast rail corridor project.

18. Ms. Kreps said that she will be sending the President an interim report on local public works (LPW). The major problem has been the 10% set-aside for minority contracts, but it now looks as though Commerce is running about 14% for minority contracts.

-- She said that the stock market is down considerably and that last week's action by the Treasury Department merely "stayed" the value of the dollar. She suggested that the Administration highlight the significance of the international financial situation as an argument for enacting the energy legislation.

19. Dr. Brown said that DOD is continuing to push for procurement awards for minority businesses. He and Deputy Secretary Duncan talked to Congressman Parren Mitchell last month about DOD's plans to double minority procurement awards. This week the Army awarded \$15 million in contracts to firms owned by American Indians.

-- DOD will announce candidates for base realignments in mid-March, although any closures will take place substantially after this. The President emphasized that he will back Dr. Brown fully on this and wants the Cabinet to cooperate wholeheartedly. Dr. Brown added that he is sensitive to

arguments concerning the importance of locating bases in depressed labor shortage areas.

-- Dr. Brown and Deputy Secretary Duncan will continue to make speeches on the Panama Canal treaties around the country.

-- Dr. Brown said that the 200-mile-limit issue with respect to ocean dumping raises serious and delicate questions for the military as well as other Cabinet departments. Ms. Kreps asked for a copy of Dr. Brown's recent memorandum to the President on this subject, and he agreed to supply it to her.

20. The President thanked the Cabinet for their suggestions for his State of the Union Message which he will deliver on Thursday, January 19. His oral statement will not be extended, for he will also be submitting a written text describing next year's initiatives in detail.

-- He goes to Atlanta on January 20 to attend a Democratic fundraiser--one of several held around the country.

-- He has forwarded a memorandum to Messrs. Blumenthal and Schultze that was handed to him by high officials in Saudi Arabia on the subject of their investments in the United States.

-- He summarized this Administration's progress on affirmative action and said that it is better than in past administrations but that the standard of comparison is what is fair. In this Administration, 21% of the federal jobs paying \$26,000 and more are held by women. USDA, DOD, DOE, Interior and Justice fall below this standard. There are approximately 3.6% Spanish-speaking appointees--the same percentage as in the general population. DOD has 1.1%; DOE, DOT and Treasury have none. 10% of the appointees are Black--again, the same percentage as in the population. USDA has less than 2%; Commerce less than 6%; DOD and DOE less than 4%.

-- He said that he is proud of the Cabinet and predicts a good year in 1978. He personally will have a heavy schedule this month and wants to minimize his personal involvement in non-priority issues. He asked the Cabinet

to come to him only when they think that he needs to know about a particular issue.

The meeting was adjourned by the President at 10:55 a.m.

Respectfully submitted,

A handwritten signature in cursive script, reading "Jane Frank". The signature is written in dark ink and is positioned above the typed name.

Jane L. Frank
Deputy Secretary to the Cabinet

780048

THE WHITE HOUSE
WASHINGTON

January 9, 1978

Secretary Schlesinger

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat

RE: PETROLEUM IMPORT REDUCTION
STUDY

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

1st page only

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		McINTYRE
		SCHULTZE

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	HARDEN
	HUTCHESON
	JAGODA
	GAMMILL

	KRAFT
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	POSTON
	PRESS
	SCHLESINGER
	SCHNEIDERS
	STRAUSS
	VOORDE
	WARREN



THE PRESIDENT HAS SIGNED

No action
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Department of Energy
Washington, D.C. 20585

December 12, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JIM SCHLESINGER

SUBJECT:

Petroleum Import Reduction Study

This memorandum summarizes the results of our analysis on petroleum import restraints.

Introduction. In the short term, the performance of the domestic economy is geared to a narrow range of energy consumption. There are no simple methods for reducing import levels quickly without creating industrial imbalances, regional inequities and surges in prices. Your energy legislation included initiatives that will result in a more efficient capital stock over time and will enhance domestic supply. Efforts beyond those already proposed become increasingly difficult.

There are three basic methods available for reducing imports. First, increasing domestic supply would displace imports without fundamentally disturbing the economy, but supply response normally has a relatively long lead time. Second, imports can be reduced by initiating domestic conservation measures, such as those in your energy legislation. Finally, imports can be reduced by quotas or fees. These latter measures could lead to the greatest reduction in imports but they also can result in severe economic problems or inequities and administrative burdens.

Beyond the initiatives in your energy legislation, the best way to reduce imports by a moderate level would be through a number of supply initiatives. Production could be increased at the Elk Hills Naval Petroleum Reserve by 150 MBD by approximately 1980 and at the Prudhoe Bay field in Alaska by 300-400 MBD by late 1979. Also, a decrease in production of low-quality California crude by about 100 MBD could be avoided. These measures could result in 550-650 MBD greater production.

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for Preservation Purposes

The best way to stimulate increased production in the near term would be through oil swaps with the Japanese until new west to east pipelines are constructed. Until those pipelines are operational, the inability to transport economically the Alaskan oil east of the Rocky Mountains will cause a "glut" of crude oil in California and will discourage production increases both in Alaska and in California.

Import Levels. The projected levels of imports with and without the National Energy Plan from now to 1981 and in 1985 are as follows:

Table I
U.S. Oil Imports
(MMBD)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1985</u>
NEP	8.1	8.6	9.1	8.9	7.0 ^{1/}
No NEP	8.1	8.9	10.0	10.3	11.5 ^{2/}
SPRO Fill .	.7	.4	.3	.4	-- ^{3/}

The payments for the imports, assuming no real price increase and 5.5 percent annual inflation, would be as follows:

Table II
Payments for Imported Oil
(Billions of Current Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1985</u>	<u>Cumulative to 1985</u>
NEP	\$46.1	\$51.6	\$57.6	\$59.4	\$57.7	\$455.9
No NEP ..	46.1	53.4	63.3	68.8	95.2	591.9
SPRO Fill	4.0	2.4	1.9	2.7	-	--

^{1/} Voluntary conservation was estimated to reduce imports below 6 MMBD.

^{2/} These estimates are from the NEP Base Case computer analysis.

^{3/} Strategic Petroleum Reserve (SPRO) fill is projected to continue at .4 MMBD in 1982 and .3 MMBD in 1983.

If demand should be higher than expected and domestic production lower than expected, the base import situation could be as serious as Table III reflects.

Table III
Oil Imports and Payments^{4/}

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1985</u>	<u>Cumulative to 1985</u>
Oil Imports..	8.1	8.9	10.0	11.0	16.0	--
Cost	\$46.1	\$53.4	\$63.3	\$73.5	\$132.5	\$667.4

Similar dollar outflows would be involved without an energy plan if demand and production meet expectations but OPEC increased real prices by 2 percent annually.

Import quotas and license fees. Under existing law, you have the authority to control imports that threaten the national security by imposing quotas or license fees. The direct reduction in supply resulting from a quota would imply immediate price and distributional effects. The price effects could be mitigated through price controls on all oil products, but the shortage would create strong pressures for black market operations. The distributional effects could be directed through administrative allocation mechanisms, but inefficiencies and inequities could not be avoided, which also would encourage black markets. The alternative is to use prices to reduce the demand and allocate the shortages. But the price levels required to achieve market clearing at significant levels of import reduction would be very high. Finally, actions directed at imports would give rise to demands by individual supplier nations for preferential treatment.

We have examined several alternative methods of using the import control authority.

1. Quota and Auction

One option available would be establishment of annual quotas and allocation of the shortfall by sale of import tickets. The tickets would be auctioned off by the Federal Government. To prevent excessive profits from accruing to

^{4/} Excluding SPRO fill

domestic producers, all domestic crude oil prices would have to be controlled. Domestic product prices would have to be decontrolled or increased sufficiently to allow refiners to pass through the cost of import tickets. During any period when the quotas would not restrict actual consumption, the tickets would be worth very little. If demand for imports were substantially greater than the quota, however, the tickets would be extremely valuable.

a. Economic Impacts

Table IV indicates the impacts on the average price of crude oil for various levels of quota restrictions on imports. It was assumed for the analysis that the import restriction would be initiated at a relatively low level in 1978 and would be increased each year until 1985. For example, to achieve a 3.5 MMBD reduction in 1985, imports would be reduced 1.7 MMBD in 1980 and 2.7 MMBD in 1983.

Three target levels of import reduction by 1985 were analyzed: 1.0 MMBD, 2.0 MMBD and 3.5 MMBD. The reference case (REF) from which the economic impacts are measured has approximately the same level of 1985 imports as would result from a conservative estimate of conference committee action on the energy bill.

Table IV

Average Cost of Crude Oil^{1/}

		<u>REF</u>	<u>1.0 MMBD</u>	<u>2.0 MMBD</u>	<u>3.5 MMBD</u>
<u>1980</u>					
Current	\$...	17.00	18.30	21.10	24.30
1977	\$	14.80	16.60	18.00	20.70
<u>1985</u>					
Current	\$..	22.30	28.90	33.80	44.35
1977	\$	14.80	18.80	22.00	28.90

^{1/} Refiners acquisition cost.

In 1985, the increase in average oil product prices over the reference case would be 15 percent for a 1.0 MMBD import reduction and 55 percent for a 3.5 MMBD import reduction. The average price of all energy would be increased over the reference case in 1985 by 11 percent at a 1.0 MMBD reduction and 34 percent at a 3.5 MMBD reduction. The price impacts would fall most heavily upon New England because of heavy dependence upon petroleum. Overall energy prices in New England would be increased by 14 percent at a 1.0 MMBD reduction and by 46 percent at a 3.5 MMBD reduction. This impact could be minimized with a home heating oil rebate but that would require new legislation.

An import restriction plan could have a number of adverse impacts on the economy. For example, even if there were full recycling through rebates of the auction revenues, a 1.0 MMBD reduction of oil imports from the reference case would increase inflation cumulatively in 1985 by 1.2 percent to 1.6 percent. A 2.0 MMBD reduction would increase inflation by 2.2 to 2.7 percent, and a 3.5 MMBD reduction would increase inflation by 4.4 percent to 4.9 percent. If the revenues were not recycled, a 1.0 MMBD reduction would increase unemployment by the early 1980's by .4 percent; a 2.0 MMBD reduction by .6 percent; and a 3.5 MMBD reduction by 1 percent or more.

Economic impacts would be significant to domestic heavy energy-using industries. The petrochemical industry, for example, could lose its competitiveness in world markets. The reductions in energy use for transportation would have both short and long term adverse impacts on automobile and recreational travel industries.

b. Energy Impacts

The induced conservation impacts from higher prices would reduce energy consumption over the short and long term and hence assist in dealing with the scarcities from import reductions. Because transportation has a higher level of discretionary use compared to other energy uses and there are no inexpensive alternative fuels, most of the energy savings would occur in that sector.

Table V

Energy Consumption Decrease by 1985
From Reference Case
(MBD Equivalent)

	<u>1.0 MMBD</u>	<u>2.0 MMBD</u>	<u>3.5 MMBD</u>
Overall Decrease from Reference Case	475	900	1225
Transportation Sector Decrease	375	650	1175

A credible long-term import reduction program commenced in the near term would also induce substantial conversion to coal by 1985, 350 MBD above the reference case at a 1.0 MMBD import reduction and 1.6 MMBD at a 3.5 MMBD reduction.

c. Treasury Impacts

The revenues collected from the auction sales would be very large. The revenues would track the increasing shortage-induced prices of oil. Even in the early years of a modest import reduction program, revenues would be substantial as shown by Table VI.

Table VI

Revenues from Auction Sales
(billions of dollars)

	<u>1.0 MMBD</u>	<u>2.0 MMBD</u>	<u>3.5 MMBD</u>
1980-Current \$	\$ 30.3	\$ 41.5	\$ 62.8
1985-Current \$	55.6	86.8	147.1
Cumulative to 1985-Current \$	283.6	419.5	684.1

In each case, severe disruption to the economy could be avoided only if the fees and taxes were returned quickly to the economy. Congressional approval would be necessary for rebates or tax reductions.

2. Import Fees

An alternative to quotas would be imposition of import fees upon petroleum. The overall fee level would have to be consistent in amount with the auction revenues under a quota system to achieve equivalent levels of import reductions. The entitlements program would be necessary to equalize oil costs throughout the country. Table VII indicates the size of the fee per barrel as applied to all imports, both products and crude oil.

Table VII

	Import Fee Level		
	<u>1.0 MMBD</u>	<u>2.0 MMBD</u>	<u>3.5 MMBD</u>
1985 Current \$	\$17.90	\$31.70	\$67.20
1977 \$	11.70	20.70	43.80

3. Import Quotas with Allocations.

Another option would be to control imports only through a quota system and allocate crude oil and products to different classes of users. Unless price controls were imposed, oil product prices would rise to a level comparable to the ticket auction system. This option presents no advantage in terms of mitigating economic impacts and has the added complexity of requiring an allocation system.

4. Import Quotas, Allocations, and Price Controls.

Under this option, a mandated reduction in imports would be allocated through administrative means. Prices of all products would be controlled at the retail level, and consequently, allocation to the end-user level would be required

for virtually every product, including gasoline. The adverse macro-economic effects of the previous alternatives would be minimized but micro-economic impacts and inequities could be severe, depending on the level of imports reduced by the quotas. The administration of the program would require a large number of decisions on conflicting claims of economic or social necessity. Undoubtedly there would be an attempt to simulate administratively the market system, but inefficiencies and evasion would be inevitable. The high prices discussed previously are the measure of the incentive for evading the system by black market operations.

Restrictions on Gasoline Use. Direct restriction on the use of gasoline can be used either to help distribute the shortage created by import quotas or to reduce gasoline consumption directly. Gasoline constitutes nearly 40 percent (7.0 MMBD) of petroleum consumption and has the highest degree of discretionary use.

If a gasoline restriction program were held to about 7 to 10 percent (500 to 700 MBD), gasoline rationing at the end-user level would not be necessary, although allocation to distributors would be required. If the target imports reductions were sufficiently great to require rationing, the impact on the economy would be much greater, particularly on the vacation industry.

The supply reduction resulting from an import quota system could be focused upon gasoline through existing administration authority to allocate shortages and to control refinery yields. Although legally possible, this approach would be cumbersome to administer. Unless the quota power were used to create a shortage situation, new legislation most likely would be necessary to control gasoline production and distribution. In addition, imposition of a gasoline rationing plan would require the assent of Congress.

Demand Restraint Measures

We also examined the demand restraint measures that are a part of our contingency planning. These include restrictions on heating and cooling of buildings, restrictions on hours of sale of gasoline, and restrictions on commuter parking. In the aggregate these measures have been estimated to reduce

oil consumption by up to 600 MBD, but most likely, less than half of this level would be realized. These types of measures also could be used either to distribute a shortage created by a quota or to back out imports indirectly. But, under present law, these programs can be adopted only after Congressional approval.

Domestic Supply Enhancement. The Elk Hills, California Naval Petroleum Reserve has a capacity of about 150 MBD greater than the current production rate. Steps are being undertaken to increase production at Elk Hills to this maximum efficient rate by 1980 or 1981.

Production from the Alaska Prudhoe Bay Field could be increased from the present production of about 700 MBD to 1.5 to 1.6 MMBD by 1980. At present, the producers contemplate increasing production only to 1.2 MMBD by early 1978 and holding at that level for a number of years because of market constraints. Until additional west to east pipelines facilities are completed, any increase in Alaskan production must be shipped through the Panama Canal to the Gulf Coast. The Alaskan producers prefer to delay further increases in Prudhoe Bay production until pipelines are available.

A long term solution to increasing Alaskan production requires completion of those pipelines. The Energy Conference has agreed to a bill that will expedite the Governmental permitting processes for the pipelines. However, it is unlikely that the Southern project (the Sohio line that would run from California to West Texas) could be operating in less than two years. The Northern tier pipeline, which would transport Alaska crude oil to refineries in the midwest, could not be completed until the early 1980's. This matter is currently being reviewed to determine if any other options are available to transport production from Prudhoe Bay to markets other than in California.

Over the last several years, production of low grade California crude oil has been declining. Federal entitlements policy coupled with the low quality and high sulphur content of California crude and increasing competition from Prudhoe Bay oil have all led to a deterioration of the market for California crude. We are adjusting the entitlements

program to increase the attractiveness of California crude. We are also investigating the possibilities of a subsidy for refinery de-sulphurization equipment to improve the long-term market for California petroleum production. These steps could result in increased production of up to 100 MBD by 1985.

Conclusion. I believe DOE should press ahead with the Elk Hills, Alaska and California supply enhancement proposals as quickly as possible. In total, they could increase domestic supply by 550 to 650 MBD by the early 1980's, reducing oil import payments from \$4 billion to \$5 billion annually. Although this would reduce oil imports less than direct restrictions, these efforts, along with other future initiatives would help reduce imports with minimal impact on the economy.

The best way to move the supply enhancement proposals ahead in the short term is through temporary swaps of Alaskan oil with Japan. The swaps would obviate the costly shipment of Alaskan oil through the Panama Canal and would induce the Alaskan producers to make the investments necessary to increase production at Prudhoe Bay and increase the capacity of the Trans-Alaska oil pipeline. The swaps might even provide an incentive for the producers to accelerate expansion of Alaskan production capacity to 1.8-2.0 MMBD. The swaps also would prevent an oil "glut" on the west coast and provide an economic climate that would induce California producers to enhance production of the heavy, high sulfur California crude oil. Thus for the nearer term, I recommend consideration of the earlier decision not to swap Alaska oil with Japan.

At this time, I would not recommend any of the import restriction alternatives. Quotas or very high import fees would be disruptive to the domestic economy and to our relationships with supplier nations. However, if a Crude Oil Equalization Tax is not enacted I believe you should reconsider an increase in import fees (about \$5.00 per barrel) sufficient to achieve the objectives of that tax which would lead to a 250-300 MBD reduction in imports.

EIZENSTAT
COMMENT

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THE WHITE HOUSE

WASHINGTON

December 17, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
KITTY SCHIRMER *Sh*

SUBJECT:

Schlesinger Memorandum on
Petroleum Import Reduction
Options

While we generally concur with the conclusions stated in the Schlesinger memorandum -- that supply enhancement options are the wisest course for the present in dealing with our oil import problem, there are a number of points which should be made about the assumptions and tables in the memo.

1. The Reference Case (labelled REF in the tables)

For the purposes of this analysis, Schlesinger's staff has posited a reference case which assumes a conservative (pessimistic) outcome of Congressional action on the National Energy Plan. Some of the implementational difficulties with a quota or import fee scheme would be lessened if the Congress goes further with the NEP than the reference case assumes.

The assumptions used in the Schlesinger memo for developing the reference case are:

- ° the regulatory portions of the National Energy plan will be enacted;
- ° the tax provisions, including the gas guzzler tax, the oil and gas user tax, and the crude oil equalization tax, will not be enacted
- ° the mechanisms proposed in the NEP to redistribute the revenues of the taxes mentioned above (rebates, some of the tax credits) will not be enacted and therefore could not be used to redistribute revenues from auction of import tickets, or fees. (This is especially relevant to the discussion of economic impacts in the Schlesinger memo.)

For purposes of comparison and completeness, Table I and II on page two of the Schlesinger memo dealing with import levels should be expanded to include the reference case. These amended tables follow:

TABLE I
U.S. OIL IMPORTS
(MMBD)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1985</u>
NEP	8.1	8.6	9.1	8.9	7.0
REF	8.1	8.7	9.6	9.7	9.5
No NEP	8.1	8.9	10.0	10.3	11.5
SPRO fill	.7	.4	.3	.4	1.0

TABLE II
Payments for Imported Oil
(Billions of Current Dollars)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1985</u>	<u>Cumulative to 1985</u>
NEP	\$46.1	\$51.6	\$57.6	\$59.4	\$57.7	\$455.9
REF	46.1	52.2	60.8	64.8	78.7	522.8
No NEP	46.1	53.4	63.3	68.8	95.2	591.9
SPRO fill	4.0	2.4	1.9	2.7	--	16.0

2. Significance of the reference case assumptions to the economic impacts of quotas or import fees

a. Quota and Auction

Table IV on page 4 estimates the price of oil at three target levels of reduction in 1985 (1.0, 2.0, 3.5). The reference case assumes 1985 import levels of 9.5 million barrels per day (MMBD). Under the table, achieving a 2 MMBD reduction from the reference case by 1985 would cause oil to cost \$22 in 1977 dollars, \$33.80 in 1985 dollars.

It is worth noting, however, that the National Energy Plan estimated that imports in 1985 would be 7.0 million barrels per day -- a figure close to the reference case with a 2 MMBD reduction. The estimated economic impacts of the NEP (at 7 MMBD imports) were not nearly as severe as those projected in Table IV, with a 2 MMBD reduction from the reference case. Yet the actual level of imports is almost identical under both cases.

This discrepancy appears to be attributable to three factors:

- o industry and other oil consumers would have to make year by year adjustments to the import quotas because the levels of the quotas would not be certain in advance. (Under the NEP, the costs of oil as adjusted through the crude oil equalization tax and the oil and gas user tax would be certain, and it is assumed that consumer and industry behavior would change significantly as a result. Coal conversion and conservation would take place voluntarily because of price.)

If import quota levels were set at fixed levels well in advance (5 to 8 years) and the projected results of this action were well publicized, one can reason that the behavior of industrial and other consumers would be much the same as it would be if all of the provisions of the National Energy Plan were enacted. Decreases in overall oil use would be orderly and the economic and employment impacts would not be as severe as projected here.

- ° A heating oil rebate, other rebates, and allocation mechanisms to divide up the shortfall will not be enacted this year, and would be difficult to get through Congress after an import quota had been announced.
- ° The bulk of the reduction in oil consumption will be borne by the transportation sector (See Table V). The NEP did not project such substantial reductions in transportation use -- much of the burden was borne by industrial conversion and savings induced by conservation. Again, if the import quotas were known well in advance, this might alter the projections of which sector bears most of the burden.

b. Import Fees

Table VII on page 7 shows the level of import fee (added on to the world price) which would be needed to achieve the same level of savings as the quota/auction system would achieve. The calculations in this table assume that the entire burden of price increases will fall on imports, and that domestic oil prices will remain controlled without the crude oil equalization tax. If COET were enacted, the import fee needed to accomplish reductions in consumption would decrease below the levels indicated in Table VII. Even with COET, however, the entitlements system would have to be retained in order to avoid regional dislocations. This is a major disadvantage of an import fee system, particularly since one of our main justifications for COET is the elimination of the entitlements program. Furthermore, imposition of COET and an import fee is almost guaranteed to be more than the Congress can swallow.

3. General comment on Allocations, Price Controls, and Demand Restraints

Mitigation of the undesirable economic dislocations and inequities resulting from a quota/auction system would generally require a complex system of allocation authority, price controls, and possibly various other demand restraints.

It should be noted, however, that much of this authority already exists and new Congressional action would not be necessary. (For example, authority to control product prices at the retail level is already available.)

If demand restraint and/or gasoline rationing were proposed, no new Congressional action beyond that already required is needed. The contingency and rationing plans now under preparation require Congressional approval under existing law and the Administration is already planning to submit these plans for Congressional action next summer. (It is, however, true that implementation of either a contingency or rationing plan which Congress has previously approved is subject to a one-house veto. It would be politically difficult to secure Congress assent for implementing of one or both of these plans absent a clear emergency situation.)

4. Japanese Oil Swap

Schlesinger recommends that an immediate effort be made to increase the production of Alaskan Prudhoe Bay reserves (from 1.2 MMBD to 1.6 MMBD). This oil would have to be temporarily swapped with Japan (or sold otherwise in the international market) in order to avoid a west coast oil glut. Construction of west to east pipeline capacity to handle increases in Alaskan and other west coast production will not be available until the early 1980's.

Even talking about a Japanese swap has, in the past, provoked a severe adverse political reaction in Congress. In order to exercise this option, a Presidential finding of national need must be made, which is subject to disapproval by the Congress. We strongly recommend that, before making such a decision, Frank Moore's and Jim's staff work closely with the Congress to explain the benefits of such a decision and to try to minimize opposition. A public education effort would also be necessary to explain why we would chose to export American oil at a time when the Administration has expressed grave concerns about our level of imports.

It is critical that the Administration not discuss the possibility of a Japanese swap on the Hill at any time before our energy bill passes. To indicate that the United States will have such an oil glut that a swap is necessary (even though there are good reasons for it in the short tun) would undercut the force of many of our arguments concerning the need for an energy bill.

ADDITIONAL
STAFF COMMENTS

ADDITIONAL STAFF COMMENTS

NSC concurs.

- o any substantial increase in domestic oil would improve our balance of trade
- o our willingness to swap oil with Japan would be a cooperative gesture at a time of heavy US pressure on Japan
- o import restrictions would cause problems with those petroleum exporting countries which have worked to keep oil prices stable

Secretary Blumenthal is in "substantial agreement.

- o he concurs with the supply initiatives (Elk Hills, Prudhoe Bay, swap with Japan)
- o he thinks, however, that the EPG Steering Group should consider the impact of quotas or import fees, and of price controls and allocation of supplies on the economy before firm recommendations can be made -- the latter might have longterm adverse effects on the economy

Charles Schultze concurs.

- o "By adopting Schlesinger's suggestions geared toward enhancement of domestic supplies, we run the least risk of impairing domestic economic growth or aggravating the present current account deficit."
- o an oil swap with Japan is the single most effective action that can be taken in the short term
- o a system of quotas or fees could have devastating effects on the economy

OMB "is in general agreement with Schlesinger that regu-

latory measures should not be used to reduce imports. OMB would add the Strategic Petroleum Reserve to the list of measures deserving further considering in reducing imports through 1985 because of Administration discretion with respect to the fill schedule."

Jack Watson: no comment.

THE WHITE HOUSE

WASHINGTON

Date: December 14, 1977

MEMORANDUM

FOR ACTION:

Zbig Brzezinski

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Schlesinger memo dated 12/12/77 re Petroleum Import
Reduction Study

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME:

DAY: IMMEDIATE TURNAROUND

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

Date: December 14, 1977

MEMORANDUM

FOR ACTION:

Secretary Blumenthal

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Schlesinger memo date 12/12 re Petroleum Import
Reduction Study

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME:

DAY: IMMEDIATE TURNAROUND

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

4E
comment

THE WHITE HOUSE

WASHINGTON

Date: December 12, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson *no reply*
Jim McIntyre *attached*
Charles Schultze *attached*

FOR INFORMATION:

The Vice President
Frank Moore

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Schlesinger memo dated 12/12/77 re Petroleum Import
Reduction Study

**YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:**

TIME: 12:00 Noon

DAY: Wednesday

DATE: December 14, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

here

Date: December 12, 1977

MEMORANDUM

FOR ACTION:

~~Stu Eisenstat~~
Jack Watson
Jim McIntyre
Charles Schultze

FOR INFORMATION:

The Vice President
Frank Moore

657

✓ *Carp*
Schinner

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Schlesinger memo dated 12/12/77 re Petroleum Import
Reduction Study

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 12:00 Noon

DAY: Wednesday

DATE: December 14, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.☐ No comment.*Please note other comments below:*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

December 15, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze ^{CLS}

SUBJECT: Schlesinger memo dated 12/12/77
re: Petroleum Import Reduction Study

I agree with the policy conclusions in Jim Schlesinger's memorandum. By adopting his suggestions geared toward enhancement of domestic supplies, we run the least risk of impairing domestic economic growth or aggravating the present current account deficit.

The following points raised in the memo deserve special emphasis:

1. An oil swap with Japan is probably the single most effective action that can be taken to reduce imports in the short-term. Since Alaskan oil is the major new source of oil supply over the near horizon, it is vital that incentives are sufficient to guarantee its marketability. The west coast "glut" and costly shipment through Panama reduce this incentive. The swap would not only provide a major incentive for current production, but could also induce an expansion of capacity of the Trans-Alaska pipeline.
2. There are major disadvantages with either a system of quotas or fees. As the memo indicates, auction quotas or import fees of the size necessary to achieve sizeable reductions in oil imports would increase the overall price level significantly, perhaps by 3 percent, for a 1 mmbd decrease. Equally important, the revenues collected under such devices would be substantial (e.g., \$30 billion in 1980 for an auction sale with a 1.0 mmbd target).



These are equivalent to a \$30 billion tax increase. With the controversy over the disposition of the COET revenues still fresh and the upcoming battles expected over tax reform, it would, in my opinion, be very difficult to persuade Congress to rebate any revenues generated by the tariff or quota. Without a rebate, these devices could deal a devastating blow to our macroeconomic objectives.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEC 14 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. McINTYRE, JR.
ACTING DIRECTOR

SUBJECT: Petroleum Import Reduction Study

Secretary Schlesinger's December 12 memorandum to you on options to reduce petroleum imports:

- (1) projects petroleum imports through 1985, with and without the National Energy Plan;
- (2) considers, but rejects, various regulatory measures to reduce imports; and
- (3) recommends efforts to accelerate Alaska, California, and Naval Petroleum Reserve production and reconsideration of oil swaps with Japan as well as an increase in import fees.

Comments:

- (1) OMB is in general agreement with the main point of the Secretary's memorandum--that regulatory measures should not be used to reduce imports.
- (2) OMB would add the Strategic Petroleum Reserve to the list of measures deserving further consideration in reducing imports through 1985 because of Administration discretion with respect to the fill schedule.



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

December 15, 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Schlesinger's Recommendations for
Reducing Petroleum Imports

I agree with Jim Schlesinger that it is imperative that the United States take action now to reduce our level of oil import payments. These payments will total more than \$46 billion in 1977 and, in the absence of appropriate action, will surely grow in the next several years. The lack of positive Congressional action on the Energy Bill seriously upset exchange markets in the last few days and, in general, is weakening confidence at home and abroad in our ability to manage our economic affairs. There is a substantial risk that this failure of Congress to act will lead to further sharp declines in the dollar over the weeks and months ahead. Therefore, you may wish to contemplate two kinds of action:

- (1) immediate emergency type actions before Congress reconvenes; or
- (2) action in conjunction with the introduction of the Economic Program in January.

I am in substantial agreement with Jim Schlesinger's memorandum to you on the prospects for reducing our petroleum imports in the short term. The work done at Treasury leads us to concur with his basic conclusion that there are no simple methods for doing this job. Each individual action carries significant implications for the path of domestic economic activity.

I concur with the judgment that we should immediately effect supply initiatives. The case for maximum effort to increase production at the Elk Hills Naval Petroleum Reserve has already been made conclusively. We believe that every effort should be made to stimulate production

from the Prudhoe Bay field. We should also make every effort to maximize utilization of our Alaskan oil supplies. This requires engaging in temporary swaps of Alaskan oil with the Japanese until the West to East Sohio Pipeline is completed.

I believe the question of quotas or import fees needs to be considered in depth before firm recommendations can be made. Both actions impact significantly on the domestic economic program and on budgetary developments. Therefore, I believe that the EPG Steering Group should immediately focus on the implications of any such action and should develop alternatives in conjunction with the economic program for the coming year. You have the statutory authority to impose either a fee or quota. There is time to comply with the appropriate procedures enabling you to take emergency action before Congress reconvenes.

Finally, I am doubtful that the reduction in oil imports that could be achieved by price controls and allocation of supplies could be effected in the longer term without adverse impacts on the economy. This issue, given Jim Schlesinger's suggestions, should also be reviewed in the EPG Steering Group.



W. Michael Blumenthal

MEMORANDUM

NATIONAL SECURITY COUNCIL

December 16, 1977

MEMORANDUM FOR: RICK HUTCHESON
FROM: CHRISTINE DODSON *Christine*
SUBJECT: Petroleum Import Reduction Study

NSC concurs with the thrust of Secretary Schlesinger's memo dated December 12, subject same as above.

1. Any substantial increase in the supply of domestic oil would improve our balance of trade and would work for stable oil prices.
2. Our willingness to swap oil with Japan, in addition to its desirable economic effects, would be taken as an indication of our cooperative attitude at a time when US pressure is heavy on Japan to expand its economy and open its markets.
3. Import restrictions would not only cause distortions in the US economy; they would also cause problems with those petroleum exporting countries which have worked to keep oil prices stable.

THE WHITE HOUSE

WASHINGTON

INFORMATION

9 January 1978

TO: THE PRESIDENT
FROM: RICK HUTCHESON
SUBJECT: Memos Not Submitted

1. SECRETARY HARRIS MEMO on HUD affirmative action efforts aimed at women:

- 50% of HUD's non-career appointments have been women; ✓
- women now constitute 14.8% of the persons in grades GS-11 and above at HUD, exceeding the goal for FY 77; ✓
- HUD headquarters will soon inaugurate a day care center for working mothers; ✓
- HUD has established viable career coaching and development programs for women and other interested employees; ✓
- these successes have resulted, in part, from a consolidation of affirmative action functions at HUD into a single major organization of the Department. ✓

2. HENRY OWEN MEMO on the international implications of 1978 tax cut decisions. Stu Eizenstat reviewed the memo, and says it is now moot. ✓

3. HENRY OWEN MEMO seconding Tony Solomon's idea that a prominent public figure be appointed to work out an anti-inflationary package, and sell it to interest groups and the public. ✓

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

Joanne:

Submit to
Rich H his
~~President.~~
12/20 gm

Stv—

I thought I should send
this to the President via
you, rather than Zbig, since
it deals with domestic
affairs.

Wing Owen

Mr. Eisenhower

THE WHITE HOUSE

WASHINGTON

~~CONFIDENTIAL~~ CDS

December 20, 1977

INFORMATION

MEMORANDUM FOR: THE PRESIDENT
FROM: HENRY OWEN *WO*
SUBJECT: Inflation

1. At a recent luncheon meeting, Tony Solomon, in answering a question from me, set forth some views on how to manage the fight on inflation that I thought worth passing on. He suggested appointing a prominent public figure with political savvy to devote his full time to:

- defining details of the anti-inflationary package that is needed;
- negotiating its main components with the interest groups concerned (labor, business, etc.) and with the Congress;
- mounting a large scale public education campaign about the need for these anti-inflation measures.

2. If you buy the anti-inflation program discussed the other day in the cabinet room, Tony's approach seems to me to have two merits:

a. It might work. There's nothing like giving a smart man one thing to do at a time in order to get results, witness Bob Strauss' work in trade and Tony Solomon's work in steel (which is obviously the basis for his suggestion).

b. It would show the public that the administration is working hard in tackling the problem which, according to public opinion polls, is of most concern to Americans. Our actions would be more visible, as well as more effective.

~~CONFIDENTIAL~~ GDS

Jay 11/5/90

THE WHITE HOUSE
WASHINGTON

12/17

81v-

This is the memo I
spoke to you about on
the phone yesterday.

Wm Owen

Mr Eisenhower

James:
Sent to Rich H w/
note I think it's
most & needn't be
Sent in. JWS

~~CONFIDENTIAL~~THE WHITE HOUSE
WASHINGTON~~CONFIDENTIAL~~INFORMATION

December 17, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY OWEN *HO*

SUBJECT: 1978 Tax Cuts

1. I am writing this memorandum to comment on the international implications of the tax cut decisions that you will make for 1978.

2. First, as to international effects of decisions concerning specific foreign tax provisions:

a) I agree with the proposal to phase out the DISC over a period of years. Its effectiveness in relation to its cost is doubtful.

b) I would not abolish the tax deferral. Given the extent to which U.S. companies abroad are increasingly jointly owned by U.S. and local interests, removal of the tax deferral could cause damage and confusion in the host countries, particularly LDC's, that would outweigh any intended gain.

3. The more important issue is how the overall U.S. tax cut will affect the global economy. Few decisions that you make in your first term will so affect European and Japanese attitudes toward the U.S.

a) These countries are worried about U.S. growth in 1978. They will welcome a substantial tax cut, and it will encourage them to follow more expansionist policies. My guess is that a \$20 billion tax cut will meet this need. (To say that this is a guess is vastly to exaggerate its precision.)

b) They are also nervous about the longer term outlook in the U.S. Twice in the last ten years they have seen excessive U.S. fiscal stimulus lead to rising rates of inflation, which triggered a counter-inflationary U.S. policy that led to recession. If they see the tax cut as being too large, they will worry about this sequence; this worry could affect their economic plans, and it could create further pressures on the dollar. There is no way of knowing what they will consider "too large" a tax cut; they will be

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~~CONFIDENTIAL~~

CONFIDENTIAL

2

influenced by the reaction of U.S. commentators, particularly the Chairman of the Federal Reserve and U.S. business leaders. Since my own view is that \$30 billion is too large, primarily because of my concern over what it will lead to in 1980 -- either a mildly rising rate of inflation (if the Federal Reserve accommodates the expansion), or higher interest rates and possible recession (if, as seems more likely, the Federal Reserve is not accommodating) -- I'm tempted to think that the Europeans and Japanese will take the same view. But the truth is that I don't know.

c) Other countries will be sensitive to what we're doing about inflation. If your tax cut decisions can be accompanied by indications that you will be launching an anti-inflationary campaign, e.g., by trying to trim government regulations that spur inflation and encouraging wage and price restraint, it would be a big plus abroad. This would be the more true if you could dramatize your intentions, say, by appointing a person of stature to spend his full time trying to translate your anti-inflationary program into reality -- overseeing the anti-regulation campaign and negotiating wage and price restraint. I may be influenced by the fact that I would favor such a step on other grounds: It might yield good results, and it would show that the administration is serious about attacking the problem that public opinion polls show is the over-riding concern of most Americans. The basic point, in the end, is that the rest of the industrial world will be almost as interested as Americans in what you do, and that they will apply the same criterion in appraising the outcome: Will it yield the steady non-inflationary U.S. growth on what their own economic progress depends?

CONFIDENTIAL/GDS

~~CONFIDENTIAL~~

July 4/5/90

THE WHITE HOUSE
WASHINGTON

January 6, 1978

The Vice President
Midge Costanza
Hamilton Jordan
Jack Watson
Jim Gammill

The attached is forwarded to
you for your information.

Rick Hutcheson

EQUAL OPPORTUNITY FOR WOMEN - HUD



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

DEC. 30 1977

Dear Mr. President:

RJ
Your recent memorandum commemorating the signing of Executive Order 11375 reflects the commitment that all Department and Agency Heads must demonstrate if there is to be true equal employment opportunity for women in the Federal Government.

We at HUD have undertaken a number of initiatives which have begun to yield significant improvements in the employment and advancement of women in the career and non-career service. These efforts have been consistent with and in support of the President's Reorganization Project.

In the area of non-career appointments, since January 20, 1977 50% of those appointees in HUD have been women.

Affirmative action functions, including the Federal Women's Program, have been consolidated within a single major organization of the Department. This initiative has helped us to not only achieve but actually exceed the FY-77 goal of increasing the percentage of women in the GS-11 and above work force from 10.7% to 12.2%. At HUD women now constitute 14.8% of the persons in grades GS-11 and above.

Our Headquarters and several regional organizations have established viable and on-going career coaching programs which will help women and other interested employees to plan and pursue career development in a variety of technical, professional and managerial occupations.

In Headquarters we will soon inaugurate a day care center which will facilitate the employment of working mothers.

During this fiscal year we plan to make further improvements in the employment and development of women in professional and managerial positions at grades GS-12 and above throughout the Department. I appreciate this opportunity to give you a brief progress report on our efforts to upgrade the participation and status of women in the Federal work force.

Respectfully,

A handwritten signature in dark ink, appearing to read "Pat", is written over the typed name.

Patricia Roberts Harris

The President
The White House
Washington, D. C. 20501

THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, D. C. 20410

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AND URBAN DEVELOPMENT

HUD-401



The President
The White House
Washington, D. C. 20501

